SMITHS GROUP PLC - HALF YEAR RESULTS FOR 6 MONTHS ENDED 31 JANUARY 2022

Pioneers of progress – improving our world through smarter engineering

Accelerated growth, executing against our strategy

HIGHLIGHTS

- **Good growth delivered in H1**
  - Organic revenue +3.4%[2]
  - Strong demand across most end markets with good order growth
- **Strong profit conversion and earnings growth**
  - Underlying operating profit up +11.1%[3] and underlying operating profit margin +110bps[3]
  - Successfully managed cost inflation
  - Underlying EPS +13.8%[3,5] for continuing operations
- **Good cash generation and strong returns**
  - 93%[4] operating cash conversion despite the challenging supply chain environment
  - ROCE[7] up +370bps reflecting higher profitability and working capital discipline
- **More focused portfolio following earlier completion of Smiths Medical sale**
  - £1bn profit on disposal with further value to come from ICU shareholding and potential earnout
  - Stronger balance sheet enabling continued investment for growth, the early repayment of a $400m bond and capital returns
  - Over 25% of the £742m share buyback already completed
- **Demonstrating meaningful progress against our strategic priorities and targets**
  - Accelerated organic growth
  - Advancing the new phase of the Smiths Excellence System, improving speed and efficiency
  - Heightened focus on sustainability and maximising accompanying growth opportunities

Headline[1]	**H1 2022**	H1 2021	Reported	**Underlying[3]**
Continuing operations[5]				
Revenue	£1,192m	£1,150m	+3.7%	**+3.4%**
Operating profit	£189m	£166m	+13.9%	**+11.1%**
Operating profit margin	15.9%	14.4%	+150bps	**+110bps**
Basic EPS	30.6p	26.0p	+17.7%	**+13.8%**
Operating cash conversion[4]	93%	158%		
ROCE[7]	14.0%	10.3%	+370bps	
Total Group[6]				
Profit for the half year (after tax)	£171m	£171m	0.0%	**+10.4%**
Basic EPS	43.0p	42.9p	+0.2%	**+10.7%**

Statutory	**H1 2022**	H1 2021	Reported
Continuing operations[5]			
Revenue	£1,192m	£1,150m	+3.7%
Operating profit	£157m	£143m	+9.8%
Total Group[6]			
Profit for the half year (after tax)	£1,123m	£129m	+771%
Basic EPS	283.9p	32.3p	+779%
Dividend per share	12.3p	11.7p	+5.0%

OUTLOOK

- Strong demand in most customer end markets; but expect more challenging Aviation OE market in the near-term
- Clear strategy with improving execution
- Continued good operating leverage
- Further new product launches on schedule
- Geopolitical and macroeconomic environment creating uncertainty; navigating supply chain challenges and increasing inflation
- Maintaining full year guidance of 3% organic revenue growth

Paul Keel, Group Chief Executive, commented:

"We are shocked and appalled by the tragic events in Ukraine. We join with the broader international community in calling for peace. In response to the conflict, we have suspended sales into Russia. Our highest priority is ensuring the safety, security and wellbeing of our colleagues in the region; all are safe and continue to receive full support from Smiths. Our business in the region represented less than 1% of Smiths' revenues in FY2021.

Our performance in the first half demonstrates the meaningful progress we are making against our strategy. We accelerated Smiths' organic revenue growth to +3.4% and converted that into even stronger profit and earnings growth, despite supply chain challenges and cost inflation.

Improvement in the first half centred on the levers we are pulling to accelerate our growth and consistently deliver results, underpinned by our focus on continuous operational excellence and investment in our people and culture.

An important milestone for us was completing the sale of Smiths Medical, ahead of schedule. This has enabled us to simplify our business, focus on our higher-performing, more strategically-aligned industrial technology core, whilst investing for growth, deleveraging and returning surplus capital to our shareholders.

We're encouraged by our good progress and I thank my 14,000 colleagues around the world who make it happen. Notwithstanding the significant uncertainty in the geopolitical and macroeconomic environment, we maintain the 3% organic revenue growth guidance we previously provided for the full year. We are making good headway towards the medium-term targets set at our Capital Markets Event last year, as we move with greater pace to realise our significant potential."

Statutory reporting

Statutory reporting takes account of all items excluded from headline performance.
See accounting policies for an explanation of the presentation of results and note 3 to the financial statements for an analysis of non-headline items.

Definitions

The following definitions are applied throughout the financial report:
[1] Headline: In addition to statutory reporting, the Group reports on a headline basis. Definitions of headline metrics, and information about the adjustments to statutory measures, are provided in note 3 to the financial statements.
[2] Organic modifies headline revenue to exclude the effects of foreign exchange and acquisitions.
[3] Underlying modifies headline performance to exclude the effects of foreign exchange, acquisitions, restructuring costs, the share buyback and include depreciation and amortisation of discontinued operations.
[4] Operating cash conversion excludes the impact of restructuring spend.
[5] Continuing operations exclude Smiths Medical which is accounted for as 'discontinued operations – businesses held for sale'. Discontinued operations are defined in note 17 to the financial statements.
[6] Total Group comprises continuing operations and discontinued operations.
[7] Alternative Performance Measures ("APMs") are defined in note 19 to the financial statements.

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Presentation

The webcast management presentation and Q&A will begin at 08.30 (UK time) today at:
https://smiths.com/investors/results-reports-and-presentations
A recording will be available from 13.00 (UK time).

Legal Entity Identifier (LEI): 213800MJL6IPZS3ASA11

This document contains certain statements that are forward-looking statements. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs and/or current expectations of Smiths Group plc (the "Company") and its subsidiaries (together, the "Group") and those of their respective officers, directors and employees concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth, strategies, and the businesses operated by the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and, unless otherwise required by applicable law, the Company undertakes no obligation to update or revise these forward-looking statements. Nothing in this document should be construed as a profit forecast. The Company and its directors accept no liability to third parties. This document contains brands that are trademarks and are registered and/or otherwise protected in accordance with applicable law.

OUR PURPOSE

We are pioneers of progress – improving our world through smarter engineering. Smarter engineering means helping to solve the toughest problems, for our customers, our communities and ourselves. We help to create a safer, more efficient and better-connected world. At the heart of all that we achieved during the first half of FY2022, and all we will continue to achieve moving forward, is our purpose.

OUR PRIORITIES AND TARGETS

Smiths is intrinsically strong with world-class engineering, leading positions in critical markets, distinctive global capabilities and underpinned by a powerful financial framework. At our Capital Markets Event in November 2021, we set out how Smiths will deliver performance in line with our significant capabilities and potential by focusing on three priorities:

1) growing faster
2) executing better and
3) doing more to inspire and empower our people.

This is our focused plan, the Smiths Value Engine, through which we will deliver the medium-term targets that we have set:

Organic Revenue Growth	4-6% (with additional upside from M&A)
EPS Growth	7-10% (with additional upside from M&A)
ROCE	15-17%
Operating Profit Margin	18-20%
Operating Cash Conversion	100%+

These targets are underpinned by Smiths' operational KPIs and environmental targets, including a commitment to Net Zero emissions from operations by 2040.

H1 2022 BUSINESS PERFORMANCE

The commentary below refers to Smiths Group performance excluding Smiths Medical, which was accounted for as 'discontinued operations' before the sale completed on 6 January 2022.

£m	H1 2021	Foreign exchange	Lower restructuring charges	Acquisitions	**Underlying movement**	**H1 2022**
Revenue	1,150	(38)		42	**38**	**1,192**
Headline operating profit	166	(7)	1	11	**18**	**189**
Headline operating profit margin	14.4%	(10)bps	+10bps	+40bps	**+110bps**	**15.9%**

In H1 we made good progress against our focused plan. We are growing faster, with organic revenue up +3.4%; executing better, with operating profit margins up +110bps; and doing more to inspire and empower our people; all whilst moving swiftly to build on our strong foundation in ESG.

GROWTH

Growth is our biggest upside to value creation, and we demonstrated encouraging progress in H1.

Organic revenue growth (by division)	H1 2022
John Crane	+5.1%
Smiths Detection	(7.2)%
Flex-Tek	+10.0%
Smiths Interconnect	+12.9%
Smiths Group	+3.4%

In H1, we delivered organic revenue growth of +3.4% (+£38m). Growth remained strong in Flex-Tek (+10.0%) and Smiths Interconnect (+12.9%) and we delivered acceleration in John Crane (+5.1% vs (10.4)% in H1 2021). As expected, Smiths Detection contracted in the period ((7.2)%), reflecting the challenging Aviation OE market.

Revenue grew +3.7% on a reported basis, to £1,192m (H1 2021: £1,150m). This included £(38)m of adverse foreign exchange translation, and +£42m from the acquisition of Royal Metal Products LLC ("Royal Metal") in February 2021.

Growth acceleration is being driven by four actionable levers, the first being **strong execution to maximise underlying market expansion** that we see across most of our portfolio**.**

Our business operates across four major global end markets: General Industrial, Safety & Security, Energy, and Aerospace.

Smiths H1 2022 growth in our primary end markets	% of Smiths revenue	Smiths organic growth H1 2022
General Industrial	40%	+5.7%
Safety & Security	32%	(3.5)%
Energy	21%	+7.5%
Aerospace	7%	+16.7%
Smiths Group	100%	+3.4%

Smiths' organic revenue growth in our largest end market, General Industrial (40% of Group revenue), was +5.7% in H1. This was driven by original equipment ("OE") and aftermarket ("AM") growth for John Crane in segments like chemical processing, pulp & paper, and mining. Demand for Flex-Tek's construction products and Smiths Interconnect's semiconductor test solutions remains strong. Smiths' organic revenue growth in the Safety & Security market was down (3.5)%, reflecting the performance from Smiths Detection and growth from Smiths Interconnect's defence related products. We grew +7.5% in Energy markets as demand continues to ramp quickly. Our fastest growth in the first half of +16.7% came in Aerospace, as accelerating aircraft builds drove strong demand for Flex-Tek and Smiths Interconnect's aerospace solutions. Our strong market positions, coupled with the balanced market exposure we have across our portfolio are distinctive long-term advantages for Smiths.

Our second lever for faster growth is **improved new product development and commercialisation**. We are focused on bringing our innovations to market more quickly and commercialising them more effectively. We launched nine high-impact new products in H1.

One example is our space qualified connectors, which enable high-speed, reliable data processing for communication satellites and GPS navigation systems. Another example is a new seal for demanding pipelines that protects the environment from harmful leaks.

In support of our growing new product pipeline, we invested £52m in R&D in the first half, an increase of 8% over H1 2021. Roughly 90% of this recorded in the income statement, with the balance being capitalised. In addition to growing a new product pipeline, we are seeing increased return on investment. The Vitality Index[7], which measures the percentage of total revenue derived from products launched in the last five years, was 28.6% for the period. This measure has been redefined to cover a five-year period to better reflect the launch profiles of our products.

Investment in capex of £(32)m (H1 2021: £(29)m) remained stable and represents 1.3x depreciation and amortisation (H1 2021: 1.2x) as we continue to invest for growth.

Our third growth lever is **building out priority adjacencies**. Each of our four businesses has well-scoped plans to grow beyond their strong core market positions. In H1 we launched John Crane SENSE® Turbo, a sensor enabled dry gas seal. This ground-breaking product is an extension of the John Crane SENSE® platform, which uses sensors and machine learning to monitor networks, helping customers prevent leaks, reduce downtime, and meet their environmental commitments. In Smiths Detection, we launched iCMORE Currency, an extension of our automated detection algorithm. The iCMORE software can automatically find hazards or illicit goods within inspected cargo, baggage or palleted goods, and is now able to detect multiple currencies, supporting the fight against global money laundering.

Our fourth growth lever is using **disciplined M&A** to augment our organic growth focus. Royal Metal, which we acquired in February 2021 for $107m is a good example. During H1, the acquisition contributed £42m of revenue and £11m of operating profit. Since acquisition, the business has grown at an annualised rate of +45%, a sharp acceleration versus prior ownership. This strong growth reflects the benefits of complementary HVAC portfolios, synergies in distribution, and positive pricing. We have converted accelerated top line growth into even stronger operating profit expansion, up +109% on an annualised basis, driven by improved operational efficiencies as well as raw material inflation pass through. We are currently exploring a number of other M&A opportunities across the Group.

In January, we successfully completed the sale of Smiths Medical to ICU Medical, Inc. (“ICU”), several months earlier than expected. This was our largest portfolio move in over a decade and positions the Group even more strongly to access the growth available in our industrial technology core. The sale generated a profit on disposal of £1.0bn, with immediate net cash proceeds of £1.35bn and further value to come from a potential $0.1bn earnout and our stake in ICU, which is recognised as a £0.4bn asset on the balance sheet. Net cash stood at £262m at the end of January 2022.

In light of our strong balance sheet and cashflows, we initiated a £742m share buyback in advance of the transaction completion. As at 24 March 2022, we had completed over 25% of the programme. At the current run-rate and share price, the average shares in issue for FY2022 would fall from 396m to 387m and we would complete the programme in early calendar 2023, with ~350m shares remaining in issue (a 12% reduction). For more information on the divestment, please see note 17 of the financial statements.

EXECUTION

Improved execution is our second key priority.

In H1, the Group delivered strong profit conversion, with headline operating profit up +£18m or +11.1% on an underlying basis. Headline operating profit increased +13.9% on a reported basis, to £189m (H1 2021: £166m). This included +£14m from improved volumes, +£1m from successful management of price and inflation, +£8m benefit from the Group's strategic restructuring programme, +£11m from acquisitions and +£1m benefit of no further restructuring charges, all of which more than offset a £(7)m impact from adverse foreign exchange and £(5)m of reinvestment in growth. Headline operating profit margin increased +150bps on a reported basis.

Operating profit margin	**H1 2022 Reported**	Reported change	**Underlying change**
John Crane	**20.0%**	+20bps	**+20bps**
Smiths Detection	**11.5%**	(110)bps	**(80)bps**
Flex-Tek	**20.9%**	+240bps	**+150bps**
Smiths Interconnect	**16.9%**	+570bps	**+490bps**
Smiths Group	**15.9%**	+150bps	**+110bps**

The £(32)m difference between headline operating profit of £189m and statutory operating profit of £157m is non-headline items as defined in note 3 of the financial statements. The largest constituents relate to amortisation of acquired intangible assets, pension equalisation, asbestos litigation in John Crane, Inc and subrogation claims in Titeflex Corporation. Statutory operating profit of £157m was £14m higher than last year (H1 2021: £143m), reflecting higher headline profit partially offset by higher non-headline charges.

We have made good progress on advancing the next phase of the Smiths Excellence System, "SES 2.0". SES 2.0 represents a step change in pace, culture and approach to operational excellence. It builds on the foundations of the Smiths Excellence System that was launched in 2018 and advances it from operational excellence theory to results focused execution. In support of this advancement, we have put in place resourcing across all divisions, rolled out additional training and tools, and established delivery targets aligned to our external commitments. We are moving faster, executing better, and doing even more to inspire and empower our people.

PEOPLE

Our primary focus is always keeping our colleagues safe and well. We have a strong and robust safety culture and strive for a zero-harm workplace, with safety considerations fully integrated into all of our activities. Our Recordable Incident Rate has been at or below 0.41 for the previous five years, roughly 50% better than US industry averages for the top quartile of similar manufacturers.

In recent weeks our particular focus has been on ensuring the safety, security and wellbeing of our colleagues in the Russia/Ukraine region. We remain in regular contact with this group and continue to pay salaries and benefits. In response to the tragic events, we have stopped all sales into Russia. Smiths has also made a donation to the Red Cross to support the vital work they are doing for the people of Ukraine, and we have implemented a donation matching scheme for our colleagues who also wish to contribute.

Leveraging the breadth and depth of talent across the Group is a competitive differentiator for Smiths and we actively promote the cross-pollination of talent between the divisions and central functions. 18% of appointments made during the first half were internal candidates and over 20 appointments were cross-business moves, demonstrating how colleagues build careers at Smiths and how skills are transferred across the Group.

In support of our focus on diversity and inclusion, we completed diversity and inclusion workshops with over 800 colleagues in the last 6 months, in 11 languages across 21 countries, and we established an extended leadership team comprised of the top 200 leaders; 33% of this group is female.

OUR ESG APPROACH

Sustainability is central to each of our priorities.

We are helping our customers meet their environmental targets by developing products and services targeted at climate risk, energy transition and other environmental needs. For example, John Crane's long experience of reducing leaks enables it to play a leading role in customer efficiency including decarbonisation through its methane reduction initiative. Flex-Tek is developing new high temperature heaters to support a significant reduction of CO_2 emissions generated in the production of steel. We are also focused on making our products more sustainable through attention to raw materials, supply chain, durability, repairability, circularity and end-of-life outcomes.

We continue proactively to manage reductions in the environmental impact of our operations and manufacturing processes. We first implemented environmental targets in 2007. Since then, we have reduced greenhouse gas ("GHG") emissions in our operations by 60%, water usage by 53% and non-recyclable waste by 63%. Around 60% of the electricity currently used in our operations now comes from renewable sources, and we are currently assessing a promising list of locations for onsite renewable energy installation.

Building on this strong ESG foundation, we have re-energised our focus on sustainability to both multiply our sustainability influence and maximise the accompanying growth opportunities.

During the period, we established a Science, Sustainability & Excellence Committee of the Board, chaired by Dame Ann Dowling, to provide guidance and supervision of our sustainability strategy. In addition, we now have a dedicated Chief Sustainability Officer in place who is driving our sustainability strategy and targets through the business. To support the delivery of our sustainability strategy, targets and time horizons, executive compensation is now linked to our sustainability targets, with an ESG metric (GHG reductions) included in our long-term incentive programme.

Alongside all of this, we have set and communicated 2024 environmental goals, an important step to support the delivery of our commitment to Net Zero GHG Emissions from operations by 2040. We have a clear roadmap for how we will achieve this (as published on our website).

It details the path we are taking to achieve Net Zero Scope 1 and 2 emissions from operations by 2040 and, furthermore, our ambition to achieve Net Zero Scope 1, 2 and 3 emissions by 2050. In H1, we have modelled and mapped our approach, signing on to the Science Based Targets Initiative and the UN Race to Zero pledge.

OTHER FINANCIAL MATTERS

Finance income/(costs)

Headline finance costs of £(19)m (H1 2021: £(21)m) were £2m lower than last year due to lower swap interest rates. Statutory finance costs were £3m income (H1 2021: £(59)m), mainly due to a £22m foreign exchange gain on an intercompany loan with Smiths Medical (H1 2021: £(38)m); the matching credit in discontinued operations nets out to zero in total Group earnings.

Taxation

The headline tax charge for continuing operations for H1 of £48m (H1 2021: £41m) represents an effective rate of 28% (FY2021: 29%).

Non-headline taxation items of £4m relate to amortisation of acquisition related intangible assets, legacy pension scheme arrangements, litigation provisions and non-headline finance items. The statutory effective tax rate was 28% (FY2021: 35%). Please refer to notes 3 and 5 of the financial statements for further details.

Profit after tax and EPS[5]

Headline profit after tax increased by +17.3% on a reported basis. Headline basic EPS was up +13.8% on an underlying basis and +17.7% on a reported basis, driven by the strong operational performance.

Discontinued operations – Smiths Medical

On 6 January 2022, the Group completed the sale of Smiths Medical to ICU Medical, Inc. ("ICU Medical") at an enterprise value of $2.7bn and an equity value of $2.4bn after adjustments for debt, liabilities and working capital.

For the 5 months that Smiths Medical remained in the Group, it delivered headline profit after tax of £49m.

The difference between statutory and headline profit after tax is £958m, which includes £1,021m gain on disposal, £(33)m of Medfusion regulatory remediation costs, £(14)m from the impairment of investments, £(22)m of foreign exchange losses on the intercompany loan with Smiths Group (continuing operations), and +£6m of tax credit on these non-headline items. Please refer to notes 3 and 17 of the financial statements for further details.

Total Group[6] profit after tax and EPS

Statutory profit after tax for the total Group increased by +770.5% to £1,123m (H1 2021: £129m) which included the profit on sale of Smiths Medical. Statutory basic EPS was up +778.9% to 283.9p (H1 2021: 32.3p).

Cash-flow

Headline operating cash-flow[5,7] was £167m (H1 2021: £254m) with operating cash conversion[4] of 93% (H1 2021: 158%); a good result in the current challenging supply chain environment.

Free cash-flow[5] was £91m (H1 2021: £163m) a decrease of £72m, reflecting the lower operating cash performance against a very strong performance in H1 2021. Free cash-flow as a percentage of operating profit was 48% (H1 2021: 98%). This metric has now been added as a key performance measure to our long-term incentive programmes, to ensure closer alignment with shareholder interests.

Statutory net cash inflow from operating activities for the total Group[6] was £182m (H1 2021: £262m). See note 15 to the financial statements for a reconciliation of headline operating cash-flow to statutory cash-flow.

Debt

Net cash[7] at 31 January 2022 was £262m (FY2021: £(1,018)m[6]) as a result of the proceeds received from the sale of Smiths Medical. Headline EBITDA[7] for the 12 months to 31 January 2022 excluding restructuring costs for continuing operations was £500m.

Gross debt[7] was £1,485m (FY2021: £1,546m). There are no financial covenants associated with this debt and the weighted average maturity was 2.4 years. On 17 February 2022, we redeemed in full the $400m bond that was due to mature in October 2022. The next maturity is due in April 2023. Cash balances increased to £1,710m (FY2021: £405m).

An $800m (c.£597m at the period-end exchange rate) revolving credit facility ("RCF") remains undrawn and matures in November 2024. The only financial covenant relates to interest cover, under which EBITDA must be greater than or equal to 3 times net interest. Taking cash and the RCF together, total liquidity was over £2bn at the end of the period.

High operating cash conversion and a strong balance sheet are the foundations of our financial framework, ensuring we are well positioned to deliver sustainable, long-term shareholder value.

Pensions

The net accounting pension surplus increased to £435m (FY2021: £413m).

Both main UK schemes (SIPS and TIGPS) are estimated to be in surplus on the Technical Provisions funding basis. Given the strength of the funding positions, no cash contributions are currently being made to these schemes. The Group and the UK Trustees continue to work together to achieve full buy-out funding for both schemes.

The two main UK pension schemes and the US pension plan are well positioned to withstand a volatile market environment. They are well hedged against changes in interest and inflation rates. Over 90% of their assets are invested in third-party annuities, government bonds, investment grade credit or cash, with no remaining equity investments. As at 31 January 2022, over 40% of the UK liabilities had been de-risked through the purchase of annuities from third party insurers.

Pension contributions in H1 were £(6)m (H1 2021: £(19)m). For FY2022, we expect total cash contributions to be around £(12)m (including funded US schemes, unfunded schemes and post-retirement healthcare plans).

Dividend

The Group maintains a progressive dividend policy, aiming to increase dividends in line with long-term underlying growth in earnings and cash-flow, with the objective of maintaining a minimum dividend cover[6] of around 2 times. The policy enables us to retain sufficient cash-flow to finance investment in the drivers of growth and meet our financial obligations. In setting the level of dividend payments, the Board considers prevailing economic conditions and future investment plans.

Reflecting the Group's strong performance and financial position, the Board is recommending an interim dividend of 12.3p, a year-on-year increase of 5% (H1 2021: 11.7p). The interim dividend will be paid on 13 May 2022 to shareholders on the register at close of business on 8 April 2022.

The Company offers a Dividend Reinvestment Plan (DRIP) enabling shareholders to use their cash dividend to buy further shares in the Company – see our website for details. To participate in the DRIP, shareholders must submit their election notice to be received by 27 April 2022 ("the Election Date"). Elections received after the Election Date will apply to dividends paid after 13 May 2022. Purchases under the DRIP are made on, or as soon as practicable after, the dividend payment date and at prevailing market prices.

Return on capital employed (ROCE)[5,7]

ROCE increased +370bps to 14.0% (H1 2021: 10.3%). This reflects higher profitability during the period and continued working capital discipline. For further detail of its calculation, please refer to note 19 to the financial statements.

Foreign exchange

The results of overseas operations are translated into sterling at average exchange rates. Net assets are translated at period-end rates. The Group is exposed to foreign exchange movements, mainly the US Dollar and the Euro. The principal exchange rates, expressed in terms of the value of Sterling, are shown in the following table.

	Average rates		Period-end rates	
	31 Jan 2022 (6 months)	31 Jan 2021 (6 months)	31 Jan 2022	31 Jan 2021
USD	1.36	1.32	1.34	1.37
EUR	1.18	1.11	1.20	1.13

Business review

JOHN CRANE

John Crane is a leading provider of mission-critical engineered solutions for global energy and process industries, supporting improved efficiency and emission reductions. 60% of revenue is derived from the energy sector (downstream and midstream oil & gas and power generation, including renewable and sustainable sources of energy). 40% comes from other process industries (including chemical, pharmaceutical, mining, water treatment, and pulp & paper). 69% of John Crane revenue comes from aftermarket sales. John Crane represents 35% of continuing Group revenue.

	H1 2022 £m	H1 2021 £m	Reported growth	Underlying growth
Revenue	416	410	+1.5%	**+5.1%**
Original Equipment	128	130	(1.5)%	**+1.8%**
Aftermarket	288	280	+2.9%	**+6.6%**
Energy	248	240	+3.3%	**+7.5%**
Industrials	168	170	(1.2)%	**+1.7%**
Headline operating profit	83	81	+2.5%	**+6.3%**
Headline operating profit margin	20.0%	19.8%	+20bps	**+20bps**
Statutory operating profit	81	82	(1.2)%	
Return on capital employed	20.2%	16.9%	+330bps	
R&D cash costs as % of sales	2.9%	2.1%	+80bps	

Revenue

£m	H1 2021 reported	Foreign exchange	Underlying movement	H1 2022 reported
Revenue	410	(14)	**20**	**416**

John Crane's market-leading position and the strength of its global service network underpinned its performance. Organic revenue was up +5.1%. On a reported basis, revenue was up +1.5%, with a £(14)m adverse foreign exchange impact.

Activity levels in both of John Crane's market segments continued to strengthen during H1. Organic revenue from John Crane's Energy segment was up +7.5%. Organic revenue from Industrial activities was up +1.7%.

Aftermarket represents 69% of John Crane's revenue (H1 2021: 68%). Organic aftermarket revenue was up +6.6%. John Crane's large installed base and leading service offering position it well to meet pent-up demand for aftermarket repairs, maintenance and upgrades. Customers are increasingly focused on improving the efficiency of their plants and refineries. This is driving further interest in John Crane's unique digital solutions, including John Crane Sense®, which monitors the condition and effectiveness of equipment and helps to optimise maintenance schedules and minimise downtime.

Organic revenue from Original Equipment ("OE") was +1.8% for the first half. The rate of new orders continues to improve, with strong growth in the OE order book. John Crane secured multiple new contracts during the period including from NatureWorks, one of the largest global producers of sustainable polymers, a major European Carbon Capture and Storage ("CCS") project, further cementing John Crane's leadership in CCS, and asset management contracts in all operating regions.

These contracts draw on John Crane's core capabilities of supporting customers' enhanced efficiency, performance and sustainability in a variety of markets. They are examples of where John Crane's leading technology, asset management capabilities and global footprint drive competitive advantage and ensure it is well positioned to capture growth opportunities as markets recover and evolve.

Operating profit

£m	H1 2021 reported	Foreign exchange	**Underlying movement**	**H1 2022 reported**
Headline operating profit	81	(3)	**5**	**83**
Headline operating profit margin	19.8%	(0)bps	**+20bps**	**20.0%**

Headline operating profit of £83m increased by +6.3% on an underlying basis, reflecting higher volumes and close management of price in the inflationary environment. Headline operating profit was up +2.5% on a reported basis, with £(3)m of adverse foreign exchange.

Headline operating margin was 20.0%, up +20bps on a reported and underlying basis, despite an 80bps increase in R&D investment and supply chain challenges. The difference between statutory and headline operating profit includes the net cost in relation to the provision for John Crane, Inc. asbestos litigation.

ROCE

ROCE was up +330bps at 20.2%, due to higher profitability.

R&D

Cash R&D expenditure represented 2.9% of sales, +80bps higher than last year. John Crane's innovation is primarily focused on enhancing efficiency, performance and sustainability by using materials science advancements, coatings and additive manufacturing. John Crane is also leveraging the Group's digital expertise to support the development of predictive diagnostic platforms and other innovative digital technologies.

John Crane sealing solutions are designed to keep process fluids and gases within systems and out of the environment. To support our customers in their environmental sustainability journeys, John Crane introduced multiple new technologies. These include a new seal for demanding hydrocarbon pipelines with a unique, patented seal technology that significantly extends the mean time between repairs, reducing maintenance, improving efficiency and protecting the environment from potentially harmful leaks, and a separation seal to minimise gas consumption in compressor applications. We also introduced John Crane SENSE® Turbo, a sensor-enabled dry gas seal. This ground-breaking technology extends the John Crane SENSE® platform, providing real-time monitoring and machine learning diagnostics on equipment, helping customers to prevent leaks and reduce downtime.

SMITHS DETECTION

Smiths Detection is a global leader in the detection and identification of threats and contraband, supporting safety, security and freedom of movement. It produces equipment for customers in the Aviation market and Other Security Systems for ports & borders, defence and urban security markets. 54% of Smiths Detection's sales are derived from the aftermarket. Smiths Detection represents 26% of continuing Group revenue.

	H1 2022 £m	H1 2021 £m	Reported growth	**Underlying growth**
Revenue	313	350	(10.6)%	**(7.2)%**
Original Equipment	145	183	(20.8)%	**(17.5)%**
Aftermarket	168	167	+0.6%	**+4.0%**
Aviation	219	260	(15.8)%	**(12.5)%**
Other Security Systems	94	90	+4.4%	**+8.1%**
Headline operating profit	36	44	(18.2)%	**(13.0)%**
Headline operating profit margin	11.5%	12.6%	(110)bps	**(80)bps**
Statutory operating profit	25	33	(24.2)%	
Return on capital employed	9.2%	6.3%	+290bps	
R&D cash costs as % of sales	9.4%	7.6%	+180bps	

Revenue

£m	H1 2021 reported	Foreign exchange	**Underlying movement**	**H1 2022 reported**
Revenue	350	(13)	**(24)**	**313**

The strength of Smiths Detection's market position and its leading technology supported a strong orderbook as we entered the pandemic. Many of those orders have now been delivered and subsequent Aviation OE tender activity has been subdued. This was the primary driver of the organic revenue decline of (7.2)% in H1. Revenue was down (10.6)% on a reported basis, including £(13)m of adverse foreign exchange translation.

Original Equipment ("OE") represented 46% of H1 2022 revenues. Organic OE revenues were down (17.5)% reflecting lower Aviation OE sales, which more than offset good growth in OE sales for Other Security Systems.

Together, Aviation and Other Security Systems derived 54% of their revenues from aftermarket services. The underlying trend in aftermarket revenues continued to improve, growing +4.0% in H1, as customers resumed more typical operating patterns.

Organic revenue from Aviation decreased (12.5)% reflecting the slowdown in the Aviation OE market. Although we expect further market challenges in the near-term, we are increasingly well positioned for recovery when it comes. Organic revenue from Other Security Systems grew by +8.1%, particularly driven by demand for Ports & Borders solutions.

Despite a slower rate of tenders, Smiths Detection continues to secure new contracts and order intake is growing. Recent wins include contracts for high-energy x-ray equipment to customs organisations in Japan and the US; and hold baggage and checkpoint solutions for airports in Mexico, Korea, and the US.

Operating profit

£m	H1 2021 reported	Foreign exchange	**Underlying movement**	**H1 2022 reported**
Headline operating profit	44	(3)	**(5)**	**36**
Headline operating profit margin	12.6%	(30)bps	**(80)bps**	**11.5%**

Smiths Detection's headline operating profit was down (13.0)% on an underlying basis, impacted by lower volumes and supply chain challenges, particularly for electronic components. The business continues to manage supply chain disruptions. Headline operating profit of £36m was down (18.2)% on a reported basis, including £(3)m adverse foreign exchange translation. Headline operating profit margin was 11.5%, down (110)bps on a reported basis and (80)bps on an underlying basis. The difference between statutory and headline operating profit primarily reflects amortisation of acquired intangibles.

ROCE

ROCE increased by +290bps to 9.2%, due to lower restructuring charges and write-downs in H2'2021 compared to the 12 months to H1 2021.

R&D

Cash R&D expenditure was 9.4% of sales, +180bps higher than last year.

Smiths Detection continued to invest in the development of the next generation of detection devices for the defence market, new algorithms to improve the detection of dangerous goods, and digital solutions to strengthen our aftermarket proposition to make people and infrastructure safer. Certain programmes are co-funded by strategic customers seeking next-generation solutions to security challenges. During H1, we launched a new high volume air cargo screening technology, as well as an extension of our automated detection algorithm, iCMORE, to enable currency detection, supporting the fight against global money laundering.

FLEX-TEK

Flex-Tek provides innovative components to heat and move fluids and gases for aerospace and industrial applications that support energy efficiency and improved air quality. 82% of Flex-Tek's revenue is derived from Industrials and 18% from the Aerospace sector. 49% of Flex-Tek's revenue comes from aftermarket sales. Flex-Tek represents 25% of continuing Group revenue.

	H1 2022 £m	H1 2021 £m	Reported growth	**Underlying growth**
Revenue	297	238	+24.8%	**+10.0%**
Industrials	243	190	+27.9%	**+8.5%**
Aerospace	54	48	+12.5%	**+16.1%**
Headline operating profit	62	44	+40.9%	**+18.3%**
Headline operating profit margin	20.9%	18.5%	+240bps	**+150bps**
Statutory operating profit	51	38	+34.2%	
Return on capital employed	24.1%	17.9%	+620bps	
R&D cash costs as % of sales	0.4%	0.5%	(10)bps	

Revenue

£m	H1 2021 reported	Foreign exchange	Acquisitions & disposals	**Underlying movement**	**H1 2022 reported**
Revenue	238	(6)	42	**23**	**297**

Flex-Tek's organic revenue increased +10.0%, with strong growth in both Industrials and Aerospace. Revenue grew +24.8% on a reported basis, including £(6)m adverse foreign exchange translation and +£42m from acquisitions.

Organic revenue from Flex-Tek's Industrial segment was up +8.5%. Strong growth was driven by demand for its construction related products in the US, particularly for heating, ventilation and air conditioning ("HVAC") applications, where Flex-Tek continued to outperform the underlying market. Other drivers included good growth of its industrial heat applications.

Organic revenue from Flex-Tek's Aerospace segment was up +16.1% reflecting improving market conditions as aircraft builds begin to recover.

Operating profit

£m	H1 2021 reported	Foreign exchange	Acquisitions & disposals	**Underlying movement**	**H1 2022 reported**
Headline operating profit	44	(1)	11	**8**	**62**
Headline operating profit margin	18.5%	(0)bps	+90bps	**+150bps**	**20.9%**

Headline operating profit increased +18.3% on an underlying basis, reflecting improved volumes and strengthened margins. Headline operating profit was up +40.9% at £62m on a reported basis, including £(1)m adverse foreign exchange translation and +£11m from acquisitions. Headline operating profit margin was up +240bps to 20.9%, on a reported basis. The difference between statutory and headline operating profit is due to amortisation of acquired intangible assets and provision for Titeflex Corporation subrogation claims.

In February 2021, the Group acquired Royal Metal, a leading manufacturer of residential and light commercial HVAC products for $107m. During H1 the acquisition contributed £42m of revenue and £11m of operating profit.

Royal Metal complements the organic growth that Flex-Tek is already driving through the development of innovative air distribution products that support improved energy efficiency and indoor air quality. Since acquisition, the business has grown at an annualised rate of +45%, a sharp acceleration versus prior ownership. This strong growth reflects the benefits of complementary HVAC portfolios, synergies in distribution, and positive pricing. We have converted accelerated top line growth into even stronger operating profit expansion, up +109% on an annualised basis, driven by improved operational efficiencies as well as raw material inflation pass through coupled with the unwind of favourable commodity hedges. Whilst some of the contract pricing benefits will fade over time, this acquisition demonstrates the value that we can create through our highly disciplined and selective M&A process.

ROCE

ROCE increased +620bps to 24.1% reflecting the improved profitability.

R&D

Cash R&D expenditure remained broadly consistent at 0.4% of sales. R&D is focused on developing new products for the construction market, and an expanded product offering in aerospace.

SMITHS INTERCONNECT

Smiths Interconnect designs solutions for high-speed, secure connectivity in demanding applications for various end markets including defence, semiconductor test, medical, space, commercial aerospace, and rail. Smiths Interconnect represents 14% of continuing Group revenue.

	H1 2022 £m	H1 2021 £m	Reported growth	**Underlying growth**
Revenue	166	152	+9.2%	**+12.9%**
Headline operating profit	28	17	+64.7%	**+58.7%**
Headline operating profit margin	16.9%	11.2%	+570bps	**+490bps**
Statutory operating profit	28	16	+75.0%	
Return on capital employed	12.0%	8.2%	+380bps	
R&D cash costs as % of sales	5.5%	7.1%	(160)bps	

Revenue

£m	H1 2021 reported	Foreign exchange	**Underlying movement**	**H1 2022 reported**
Revenue	152	(5)	**19**	**166**

Smiths Interconnect delivered a strong performance with organic revenue up +12.9%, reflecting continued good momentum supported by a growing orderbook and new products. Revenue increased by +9.2% on a reported basis, including £(5)m adverse foreign exchange translation.

This strong performance reflects high growth in the semiconductor test business, as well as new customer wins. There was also good growth in the space and defence market segments with specific defence sub-system projects and sales of fibre-optic transceivers and microwave components driving a strong performance.

During the period, Smiths Interconnect received significant orders for its space-qualified products for commercial satellite constellations and space exploration projects, medical cable assemblies and next generation chip testing solutions.

Operating profit

£m	H1 2021 reported	Foreign exchange	Lower restructuring costs	**Underlying movement**	**H1 2022 reported**
Headline operating profit	17	(0)	1	**10**	**28**
Headline operating profit margin	11.2%	(0)bps	+80bps	**+490bps**	**16.9%**

Headline operating profit increased +58.7% on an underlying basis, reflecting strong volumes and the benefits of restructuring actions. Headline operating profit was up +64.7% to £28m on a reported basis, including £1m of restructuring costs in H1 2021. Headline operating profit margin was 16.9%, up +570bps on a reported basis and +490bps on an underlying basis. We feel confident that mid-teens margins are broadly sustainable. The difference between statutory and headline operating profit reflects the amortisation of acquired intangibles.

ROCE

ROCE increased +380bps to 12.0%, driven by higher profitability.

R&D

Cash R&D expenditure decreased to 5.5% of sales (H1 2021: 7.1%) due to project phasing. R&D is focused on bringing to market new products that improve connectivity and product integrity in demanding operating environments. Product launches included the new space qualified connectors and optical transceivers, which enable high-speed, reliable data processing for communication satellites and GPS navigation systems; and new connectors for the rail market segment that are significantly smaller and lower weight than existing solutions.

RISK MANAGEMENT

The Group's principal risks and uncertainties and relevant mitigating activities were set out on pages 72-79 of the FY2021 Annual Report. In the view of the Board, the principal risks and uncertainties affecting the Group for the remaining six months of the financial year continue to be those set out briefly below and more fully in the Annual Report.

COVID-19: COVID-19 is impacting our colleagues, customers, suppliers and operations to varying degrees across different territories and different parts of our business. This includes, but is not limited to: risks to the wellbeing of our people, their families and communities; our customers, who have in many cases revised their demand forecasts; our suppliers, whose businesses have had challenges maintaining continuity of supply; and our own operations which have had to deal with all the combined challenges of the pandemic.

Technology: Differentiated new products and services are critical to our success. Disruptive technologies may limit our ability to win future business, achieve operating results, and capitalise on future growth opportunities. Failure to deliver new product introduction projects on time, within budget, to technical specifications, or significantly below customer expectations could have serious financial and reputational consequences.

Economy and geopolitics: The prolonged impact of COVID-19 on supply chains is driving inflation in developed economies. Persistently high inflation increases the risk of a wage-price spiral and costs outstripping demand for our products; conversely, this may create an opportunity for further price increases. The war between Russia and Ukraine has brought about new trading sanctions, counter-sanctions and legislation. This presents a moderate risk to our growth strategy, with further widespread impacts on global supply chains. Geopolitical tensions continue to rise, which poses threats to the free movement of goods, capital and people.

Group portfolio: Our strategy is predicated primarily on organic growth. However, acquisitions/divestments can also play a role in building and/or strengthening competitive positions. Acquisitions bring risk as well as opportunity. We may invest substantial funds and resources in acquisitions which fail to deliver on expectations – due to incorrect appraisal of the target and/or poor execution. The opposite risk is that (perhaps through an excess of caution) we miss out on opportunities to build market-leading positions and growth.

Product quality: In the ordinary course of business, we are potentially subject to product liability claims and lawsuits, including potential class actions. The mission-critical nature of many of our solutions makes the potential consequences of failure more serious than may otherwise be the case.

Customers: Our markets are evolving at a fast pace, creating potential for customers to change their business models as they look to deliver products and services at higher quality, with better service and at lower cost. Failure of the Group to keep pace with customer changes/requirements (innovation, go-to-market strategies) could have a materially adverse impact on Group performance.

People: People are our only truly sustainable source of competitive advantage and competition for key skills is intense, especially around science, technology, engineering and mathematics (STEM) disciplines. We may not be successful in attracting, retaining, developing, engaging and inspiring the right people with the right skills to achieve our growth ambitions.

Cyber security: Cyber-attacks seeking to compromise the confidentiality, integrity and availability of IT systems and the data held on them are a continuing risk. We operate in markets and product areas which are known to be of interest to criminals.

Integrated Supply chain: Timely, efficient supply of raw materials and purchased components is critical to our ability to deliver to our customers. Manufacturing and supply chain continuity is exposed to external events that could have significant adverse consequences, including natural catastrophes, civil or political unrest, changes in regulatory conditions, sanctions, terrorist attacks and disease pandemics – this applies to our own manufacturing sites and those of our key component suppliers.

Markets: A significant proportion of our revenue comes from the US and European markets, with a notable proportion coming from governments. In addition to geographical markets, there is a risk we do not focus on attractive sectors where we have, or could have, a sustainable position.

Ethical breach: We operate in highly regulated markets requiring strict adherence to laws with risk areas including: Bribery and corruption; Anti-trust matters; International trade laws and sanctions; Human rights, modern slavery and international labour standards; General Data Protection Regulation (GDPR); and Government contracting regulations. There is a risk that a significant ethical or compliance breach may occur which could seriously harm our reputation and impact our financial performance, customer relationships and ability to retain talent.

Contractual obligations: We may fail to deliver the products and services or fail in our contractual execution due to delays or breaches by our suppliers or other counterparties.

Emerging risks - Climate change: We recognise the critical nature of the climate challenge and have committed to achieving net zero carbon emissions from operations by 2040. The primary risk to meeting these commitments is the requirement to transition our products and services to a lower-carbon economy. Failure to transition from carbon-intensive products and services at a rapid pace may jeopardise our ability to win new business, achieve operating results, attract and retain talent, secure funding, realise future growth opportunities, or force government intervention to limit emissions.

Statement of directors' responsibilities

The directors confirm that, to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the United Kingdom and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and

- the interim management report includes a fair review of the information required by:

  a) DTR 4.2.7R of the *Disclosure Guidance and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  b) DTR 4.2.8R of the *Disclosure Guidance and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

For and on behalf of the Board of directors:

Paul Keel	**John Shipsey**
Chief Executive	**Chief Financial Officer**

24 March 2022

Independent review report to Smiths Group plc

Conclusion
We have been engaged by Smiths Group plc ("the Company") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2022 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2022 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the latest annual financial statements of the group were prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the next annual financial statements will be prepared in accordance with UK-adopted international accounting standards. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

Our responsibility
Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities
This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Michael Maloney

for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

24 March 2022

Consolidated income statement (unaudited)

	Notes	Six months ended 31 January 2022 Headline £m	Six months ended 31 January 2022 Non-headline (note 3) £m	Six months ended 31 January 2022 Total £m	Six months ended 31 January 2021 Headline £m	Six months ended 31 January 2021 Non-headline (note 3) £m	Six months ended 31 January 2021 Total £m
CONTINUING OPERATIONS							
Revenue	2	1,192	–	1,192	1,150	–	1,150
Operating costs	2	(1,003)	(32)	(1,035)	(984)	(23)	(1,007)
Operating profit/(loss)		**189**	**(32)**	**157**	**166**	**(23)**	**143**
Interest receivable		5	–	5	5	–	5
Interest payable		(24)	–	(24)	(26)	–	(26)
Other financing gains/(losses)		–	19	19	–	(41)	(41)
Other finance income – retirement benefits		–	3	3	–	3	3
Finance income/(costs)		(19)	22	3	(21)	(38)	(59)
Profit/(loss) before taxation		**170**	**(10)**	**160**	**145**	**(61)**	**84**
Taxation	5	(48)	4	(44)	(41)	(21)	(62)
Profit/(loss) for the period from continuing operations		**122**	**(6)**	**116**	**104**	**(82)**	**22**
DISCONTINUED OPERATIONS							
Profit for the period from discontinued operations	17	49	958	1,007	67	40	107
PROFIT/(LOSS) FOR THE PERIOD		**171**	**952**	**1,123**	**171**	**(42)**	**129**
Attributable to							
Smiths Group shareholders – continuing operations		121	(6)	115	103	(82)	21
Smiths Group shareholders – discontinued operations		49	958	1,007	67	40	107
Non-controlling interests		1	–	1	1	–	1
		171	**952**	**1,123**	**171**	**(42)**	**129**
Earnings per share	4						
Basic				283.9p			32.3p
Basic – continuing				29.1p			5.3p
Diluted				283.7p			32.2p
Diluted – continuing				29.1p			5.3p
Dividends per share (declared)	14			**12.3p**			**11.7p**

Consolidated statement of comprehensive income (unaudited)

	Notes	Six months ended 31 January 2022 £m	Six months ended 31 January 2021 Represented* £m
Profit for the period		**1,123**	**129**
Other comprehensive income (OCI)			
OCI which will not be reclassified to the income statement:			
Re-measurement of post-retirement benefits assets and obligations		18	(94)
Taxation on post-retirement benefits movements		(5)	17
Fair value movements on financial assets at fair value through OCI		(29)	3
		(16)	(74)
OCI which will be reclassified and reclassifications:			
Fair value gains and reclassification adjustments:			
– deferred in the period on cash-flow and net investment hedges		(24)	51
– reclassified to income statement on cash-flow hedges		5	1
		(19)	52
Foreign exchange movements net of recycling:			
Exchange gains/(losses) on translation of foreign operations		72	(104)
Exchange gains recycled to the income statement on disposal of business		(196)	–
		(124)	(104)
Total other comprehensive expenditure for the period, net of taxation		**(159)**	**(126)**
Total comprehensive income		**964**	**3**
Attributable to			
Smiths Group shareholders		963	3
Non-controlling interests		1	–
		964	**3**
Total comprehensive income attributable to Smiths Group shareholders arising from			
Continuing operations		161	(53)
Discontinued operations		803	56
		964	**3**

* The comparative period has been represented to include ‘Fair value movements on financial assets at fair value through OCI’ within the ‘OCI which will not be reclassified to the income statement’ subtotal rather than within the ‘OCI which will be reclassified and reclassifications’ subtotal. This reclassification has no impact on total other comprehensive income in the comparative period ended 31 January 2021.

Consolidated balance sheet (unaudited)

	Notes	31 January 2022 £m	31 July 2021 £m
Non-current assets			
Intangible assets	7	1,502	1,498
Property, plant and equipment	8	220	212
Right of use assets	9	105	108
Financial assets – other investments	10	439	11
Retirement benefit assets	6	565	546
Deferred tax assets		95	92
Trade and other receivables		61	59
Financial derivatives	11	36	75
		3,023	**2,601**
Current assets			
Inventories		447	381
Current tax receivable		69	75
Trade and other receivables		623	630
Cash and cash equivalents	11	1,710	405
Financial derivatives	11	8	2
Assets held for sale		–	1,243
		2,857	**2,736**
Total assets		**5,880**	**5,337**
Current liabilities			
Financial liabilities:			
– short-term borrowings	11	(343)	(36)
– financial derivatives	11	(8)	(3)
Provisions	13	(89)	(46)
Trade and other payables		(580)	(530)
Current tax payable		(100)	(89)
Liabilities held for sale		–	(283)
		(1,120)	**(987)**
Non-current liabilities			
Financial liabilities:			
– long-term borrowings	11	(1,142)	(1,466)
Provisions	13	(234)	(241)
Retirement benefit obligations	6	(130)	(128)
Corporation tax payable		(5)	(5)
Deferred tax liabilities		(32)	(28)
Trade and other payables		(50)	(59)
		(1,593)	**(1,927)**
Total liabilities		**(2,713)**	**(2,914)**
Net assets		**3,167**	**2,423**
Shareholders' equity			
Share capital	18	146	149
Share premium account	18	365	363
Capital redemption reserve		9	6
Revaluation reserve		–	1
Merger reserve		235	235
Cumulative translation adjustments		282	509
Retained earnings		2,252	1,367
Hedge reserve		(144)	(228)
Total shareholders' equity		**3,145**	**2,402**
Non-controlling interest equity		22	21
Total equity		**3,167**	**2,423**

Consolidated statement of changes in equity (unaudited)

	Notes	Share capital and share premium £m	Other reserves £m	Cumulative translation adjustments £m	Retained earnings £m	Hedge reserve £m	Equity shareholders' funds £m	Non-controlling Interest £m	Total equity £m
At 31 July 2021		512	242	509	1,367	(228)	2,402	21	2,423
Profit for the period		–	–	–	1,122	–	1,122	1	1,123
Other comprehensive income:									
– foreign exchange movements net of recycling		–	(1)	(227)	1	103	(124)	–	(124)
– re-measurement of post-retirement benefits and related tax		–	–	–	13	–	13	–	13
– fair value losses and related tax		–	–	–	(29)	(19)	(48)	–	(48)
Total comprehensive income for the period		**–**	**(1)**	**(227)**	**1,107**	**84**	**963**	**1**	**964**
Transactions relating to ownership interests									
Issue of new equity shares	18	2	–	–	–	–	2	–	2
Purchase of shares by Employee Benefit Trust		–	–	–	(16)	–	(16)	–	(16)
Share buybacks	18	(3)	3	–	(111)	–	(111)	–	(111)
Dividends:									
– equity shareholders	14	–	–	–	(103)	–	(103)	–	(103)
Share-based payment		–	–	–	8	–	8	–	8
At 31 January 2022		**511**	**244**	**282**	**2,252**	**(144)**	**3,145**	**22**	**3,167**

	Notes	Share capital and share premium £m	Other reserves £m	Cumulative translation adjustments £m	Retained earnings £m	Hedge reserve £m	Equity shareholders' funds £m	Non-controlling Interest £m	Total equity £m
At 31 July 2020		510	242	674	1,259	(312)	2,373	21	2,394
Profit for the period		–	–	–	128	–	128	1	129
Other comprehensive income:		–	–			–			
– foreign exchange movements net of recycling		–	–	(103)	–	–	(103)	(1)	(104)
– re-measurement of post-retirement benefits and related tax		–	–	–	(77)	–	(77)	–	(77)
– fair value gains and related tax		–	–	–	3	52	55	–	55
Total comprehensive income for the period		**–**	**–**	**(103)**	**54**	**52**	**3**	–	**3**
Transactions relating to ownership interests									
Exercises of share options	18	2	–	–	–	–	2	1	3
Purchase of shares by Employee Benefit Trust		–	–	–	(16)	–	(16)	–	(16)
Dividends:									
– equity shareholders	14	–	–	–	(138)	–	(138)	–	(138)
– non-controlling interests		–	–	–	–	–		(1)	(1)
Share-based payment		–	–	–	6	–	6	–	6
At 31 January 2021		**512**	**242**	**571**	**1,165**	**(260)**	**2,230**	**21**	**2,251**

Consolidated cash-flow statement (unaudited)

	Notes	Six months ended 31 January 2022 £m	Six months ended 31 January 2021 £m
Net cash inflow from operating activities	15	182	262
Cash-flows from investing activities			
Expenditure on capitalised development		(14)	(15)
Expenditure on other intangible assets		(4)	(7)
Purchase of property, plant and equipment		(30)	(33)
Disposals of property, plant and equipment		1	–
Investment in financial assets		(4)	–
Income from financial assets		–	4
Acquisition of businesses		–	(5)
Proceeds on disposal of subsidiaries, net of cash disposed	17	1,348	–
Net cash-flow used in investing activities		**1,297**	**(56)**
Cash-flows from financing activities			
Proceeds from issue of new equity shares		2	2
Share buybacks	18	(103)	–
Purchase of shares by Employee Benefit Trust		(16)	(16)
Settlement of share awards in cash		(1)	–
Dividends paid to equity shareholders and non-controlling interests		(103)	(139)
Cash inflow/(outflow) from matured derivative financial instruments		4	(5)
Lease payments		(19)	(23)
Net cash-flow used in financing activities		**(236)**	**(181)**
Increase in cash and cash equivalents		**1,243**	**25**
Cash and cash equivalents at beginning of the period		405	366
Movement in cash held in disposal group		48	(4)
Exchange differences		14	(12)
Cash and cash equivalents at end of the period		**1,710**	**375**
Cash and cash equivalents at end of the period comprise:			
– cash at bank and in hand		208	193
– short-term deposits		1,502	182
		1,710	**375**

Notes to the condensed interim financial statements (unaudited)

1 Basis of preparation

The financial information for the period ended 31 January 2022 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 July 2021 has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report, and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The condensed consolidated interim financial report for the half-year reporting period ended 31 January 2022 included in this announcement has been prepared on a going concern basis using accounting policies consistent with UK-adopted international accounting standards, in accordance with IAS 34 Interim Financial Reporting, and in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

On 31 December 2020 EU-adopted IFRS was brought into UK law and became UK-adopted international accounting standards, with future changes to IFRS being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 August 2021. This change constitutes a change in accounting framework; however, there is no impact on recognition, measurement or disclosure

The interim report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 July 2021, which has been prepared in accordance with both International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, and any public announcements made by the Group during the interim reporting period.

The interim financial statements are prepared on a going concern basis. The Directors have assessed the principal risks discussed on page 20. The Directors believe that the Group is well placed to manage its financing and other business risks satisfactorily, and have a reasonable expectation that the Group will have adequate resources to continue in operation for at least 12 months from the signing date of these condensed consolidated interim financial statements. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

The interim financial information was approved by the Board on 24 March 2022.

Accounting policies

The same accounting policies, estimates, presentation and methods of computation are followed in the condensed interim financial statements as applied in the Group's latest annual audited financial statements.

New standards and interpretations not yet adopted

No new standards, new interpretations, or amendments to standards or interpretations have been published which are expected to have a significant impact on the Group's financial statements.

Presentation of results

In order to provide users of the accounts with a clear and consistent presentation of the performance of the Group's ongoing trading activity, the income statement is presented in a three column format with 'headline' profits shown separately from non-headline items in a form consistent with the prior year.

Judgement is required in determining which items should be included as non-headline. The amortisation of acquired intangibles, legacy liabilities, material one-off items and certain re-measurements are included in a separate column of the income statement. See note 3 for a breakdown of the items excluded from headline profit.

Performance measures for the Group's ongoing trading activity are described as 'headline' and used by management to measure and monitor performance. See note 2 for disclosures of headline operating profit and note 19 for more information about the alternative performance measures ('APMs') used by the Group.

In addition, the Group reports organic growth rates for revenue and underlying growth rates for profit where the determination of adjustments requires judgement. See note 19 for more information about the key performance indicators (KPIs) used by the Group.

2 Analysis of revenue, operating costs and segment information

Analysis by operating segment

The Group is organised into four divisions: John Crane, Smiths Detection, Flex-Tek and Smiths Interconnect. These divisions design and manufacture the following products:

- **John Crane** – mechanical seals, seal support systems, power transmission couplings and specialised filtration systems;
- **Smiths Detection** – sensors and systems that detect and identify explosives, narcotics, weapons, chemical agents, biohazards and contraband;
- **Flex-Tek** – engineered components, flexible hosing and rigid tubing which heat and move fluids and gases; and
- **Smiths Interconnect** – specialised electronic and radio frequency board-level and waveguide devices, connectors, cables, test sockets and sub-systems used in high-speed, high reliability, secure connectivity applications.

The position and performance of each division is reported at each Board meeting to the Board of Directors. This information is prepared using the same accounting policies as the consolidated financial information, except that the Group uses headline operating profit to monitor divisional results and operating assets to monitor divisional position. See note 3 and note 19 for more information on which items are excluded from headline profit measures.

The sale of the Group's Smiths Medical business was completed on 6 January 2022 and the results of Smiths Medical are disclosed as a discontinued operation in note 17.

Intersegment sales and transfers are charged at arm's-length prices.

Segment trading performance

						Six months ended 31 January 2022
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate costs £m	Total £m
Revenue	416	313	297	166	–	1,192
Divisional headline operating profit	83	36	62	28	–	209
Corporate headline operating costs	–	–	–	–	(20)	(20)
Headline operating profit/(loss)	**83**	**36**	**62**	**28**	**(20)**	**189**
Items excluded from headline measures (note 3)	(2)	(11)	(11)	–	(8)	(32)
Operating profit/(loss) for the period	**81**	**25**	**51**	**28**	**(28)**	**157**
Headline operating margin	20.0%	11.5%	20.9%	16.9%		15.9%

						Six months ended 31 January 2021
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate costs £m	Total £m
Revenue	410	350	238	152	–	1,150
Divisional headline operating profit	81	44	44	17	–	186
Corporate headline operating costs	–	–	–	–	(20)	(20)
Headline operating profit/(loss)	**81**	**44**	**44**	**17**	**(20)**	**166**
Items excluded from headline measures (note 3)	1	(11)	(6)	(1)	(6)	(23)
Operating profit/(loss) for the period	**82**	**33**	**38**	**16**	**(26)**	**143**
Headline operating margin	19.8%	12.6%	18.5%	11.2%		14.4%

Segment assets and liabilities

Segment assets

						31 January 2022
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Property, plant, equipment, right of use assets, development projects, other intangibles and investments	160	116	77	45	444	842
Inventory, trade and other receivables	362	423	192	133	21	1,131
Segment assets	**522**	**539**	**269**	**178**	**465**	**1,973**

						31 July 2021
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Property, plant, equipment, development projects, other intangibles and investments	152	117	75	44	18	406
Inventory, trade and other receivables	356	417	160	127	10	1,070
Segment assets	**508**	**534**	**235**	**171**	**28**	**1,476**

Non-headline assets comprise receivables relating to non-headline items, acquisitions and disposals.

Segment liabilities

						31 January 2022
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Divisional liabilities	(121)	(280)	(81)	(66)	–	(548)
Corporate and non-headline liabilities	–	–	–	–	(405)	(405)
Segment liabilities	**(121)**	**(280)**	**(81)**	**(66)**	**(405)**	**(953)**

						31 July 2021
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Divisional liabilities	(137)	(276)	(66)	(61)	–	(540)
Corporate and non-headline liabilities	–	–	–	–	(336)	(336)
Segment liabilities	**(137)**	**(276)**	**(66)**	**(61)**	**(336)**	**(876)**

Non-headline liabilities comprise provisions and accruals relating to non-headline items, acquisitions and disposals.

Reconciliation of segment assets and liabilities to statutory assets and liabilities

	Assets		Liabilities	
	31 January 2022 £m	31 July 2021 £m	31 January 2022 £m	31 July 2021 £m
Segment assets and liabilities	**1,973**	**1,476**	**(953)**	**(876)**
Goodwill and acquired intangibles	1,424	1,423	–	–
Derivatives	44	77	(8)	(3)
Current and deferred tax	164	167	(137)	(122)
Retirement benefit assets and obligations	565	546	(130)	(128)
Cash and borrowings	1,710	405	(1,485)	(1,502)
Assets and liabilities held for sale	–	1,243	–	(283)
Statutory assets and liabilities	**5,880**	**5,337**	**(2,713)**	**(2,914)**

Segment capital employed

Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets adjusted to add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998 of £478m (31 July 2021: £787m), and eliminate post-retirement benefit assets and liabilities and litigation provisions relating to non-headline items, both net of related tax, and net debt. See note 19 for additional details.

The 12-month rolling average capital employed by division, which Smiths uses to calculate divisional return on capital employed, is set out below:

					31 January 2022
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Total £m
Average divisional capital employed	934	986	478	384	2,781
Average corporate capital employed					43
Average capital employed – continuing operations					**2,824**
Average capital employed – assets held for sale					1,235
Average capital employed – including assets held for sale					4,059

					31 January 2021
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Total £m
Average divisional capital employed	988	1,103	452	415	2,958
Average corporate capital employed					13
Average capital employed – continuing operations					**2,971**
Average capital employed – assets held for sale					1,355
Average capital employed – including assets held for sale					4,326

Analysis of revenue

The revenue for the main product and service lines for each division is:

John Crane	Original equipment £m	Aftermarket £m	Total £m
Revenue six months ended 31 January 2022	128	288	416
Revenue six months ended 31 January 2021	130	280	410

Smiths Detection	Aviation £m	Other security systems £m	Total £m
Revenue six months ended 31 January 2022	219	94	313
Revenue six months ended 31 January 2021	260	90	350

Flex-Tek	Aerospace £m	Industrials £m	Total £m
Revenue six months ended 31 January 2022	54	243	297
Revenue six months ended 31 January 2021	48	190	238

Smiths Interconnect	Components, Connectors & Subsystems £m
Revenue six months ended 31 January 2022	166
Revenue six months ended 31 January 2021	152

The Group's statutory revenue is analysed as follows:

	Six months ended 31 January 2022 £m	Six months ended 31 January 2021 £m
Sale of goods recognised at a point in time	859	840
Sale of goods recognised over time	54	24
Services recognised over time	279	286
Revenue	**1,192**	**1,150**

Operating costs

Headline operating costs are analysed as follows:

	Six months ended 31 January 2022			Six months ended 31 January 2021 – represented*		
	Headline £m	Non-headline (note 3) £m	Total £m	Headline £m	Non-headline (note 3) £m	Total £m
Cost of sales - direct materials, labour, production and distribution overheads	736	–	736	721	–	721
Selling costs	95	–	95	93	–	93
Administrative expenses	172	32	204	170	23	193
Operating costs	**1,003**	**32**	**1,035**	**984**	**23**	**1,007**

* The analysis of operating costs for the comparative period has been represented to reclassify £12m of agents' commissions from 'Selling costs' to 'Cost of sales'. This representation has no impact on total operating costs in the comparative period ended 31 January 2021.

3 Non-statutory profit measures

Headline profit measures

The Group seeks to present a measure of performance which is not impacted by material non-recurring items or items considered non-operational in nature. This measure of profit is described as 'headline' and is used by management to measure and monitor performance. See the disclosures on presentation of results in accounting policies for an explanation of the adjustments. The items excluded from 'headline' are referred to as 'non-headline' items.

Non-headline operating profit items

i. CONTINUING OPERATIONS

The non-headline items included in statutory operating profit are as follows:

	Six months ended 31 January 2022 £m	Six months ended 31 January 2021 £m
Post-acquisition integration costs and fair value adjustment unwind		
Integration programmes	–	(1)
Unwind of acquisition balance sheet fair value uplift	(1)	–
Legacy pension scheme arrangements		
Past service costs for benefit equalisation	(8)	(6)
Non-headline litigation provision movements		
Provision for John Crane, Inc. asbestos litigation	1	(2)
Cost recovery for John Crane, Inc. asbestos litigation	–	6
Movement in provision held against Titeflex Corporation subrogation claims	2	7
Other items		
Amortisation of acquisition related intangible assets	(26)	(27)
Non-headline items in operating profit	**(32)**	**(23)**

Post-acquisition integration costs and fair value adjustment unwind

The £1m of integration programme costs in the prior year relate to defined projects for the integration of United Flexible and Royal Metal into the existing Flex-Tek business. Integration costs are recognised as non-headline items because they are considered to be non-operational in nature and bear no relation to the ongoing performance of the acquired businesses.

The impact of unwinding the acquisition balance sheet fair value adjustments required by IFRS 3 'Business combinations' was recognised as non-headline as the charge did not relate to trading activity. The £1m (31 January 2021: £nil) charge was due to the unwind of fair value uplifts on the acquisition of Royal Metal Products.

Legacy pension scheme arrangements

In the current year £8m of past service costs have been recognised in respect of the equalisation of retirement benefits for men and women (see note 6 for further details). In the prior year £6m of past service costs were recognised following a further ruling from the UK High Court on GMP equalisation. These are treated as non-headline items as they are non-recurring and relate to legacy pension schemes.

Non-headline litigation provision movements

The following litigation costs and recoveries have been treated as non-headline items because the provisions were treated as non-headline when originally recognised and the subrogation claims and litigation relate to products that the Group no longer sells in these markets:

- The £1m credit (31 January 2021: £2m charge) in respect of John Crane, Inc. asbestos litigation is principally due to litigation management expenses and discount rate movements following an increase in United States of America (US) treasury bond yields. In the prior year £6m of costs were recovered via insurer settlements. See note 12 for further details; and
- A £2m credit (31 January 2021: £7m credit) has been recognised by Titeflex Corporation in respect of changes to the estimated cost of future claims. The current year credit is driven by discount rate movements. See note 12 for further details.

Other items

Acquisition related intangible asset amortisation costs of £26m (31 January 2021: £27m) were recognised in the current period. This is considered to be a non-headline item on the basis that these charges result from acquisition accounting and do not relate to current trading activity.

Non-headline finance income/(costs) items

The non-headline items included in finance income/(costs) are as follows:

	Six months ended 31 January 2022 £m	Six months ended 31 January 2021 £m
Foreign exchange gain/(loss) on intercompany loan with discontinued operations	22	(38)
Other financing losses	(2)	(2)
Unwind of discount on provisions	(1)	(1)
Other finance income – retirement benefits	3	3
Non-headline items in finance income/(costs)	**22**	**(38)**
Non-headline loss before taxation	**(10)**	**(61)**

Foreign exchange gains or losses on intercompany financing between Smiths Medical and the continuing group are recognised on the face of the income statement as a non-headline item due to the classification of Smiths Medical as a discontinued operation. The £22m foreign exchange gain above (31 January 2021: £38m loss) matches the foreign exchange loss in discontinued operations. This is excluded from headline net finance costs as these fair value movements are non-operational in nature and are purely a consequence of the presentational requirements for discontinued operations.

Other financing losses represent fair value movements on financial instruments and foreign exchange movements on borrowings, which the Group excludes from headline net finance costs. The current period loss of £2m (31 January 2021: £2m) is principally due to hedge ineffectiveness on the Group's 2027 Eurobonds, which will reverse over the remaining period to maturity. These fair value movements are excluded from headline net finance costs when the following requirements are met:

- Fair value gains and losses on the interest element of derivative financial instruments hedging the Group's net debt exposures are excluded from headline, as they will either reverse over time or be matched in future periods by interest charges.

- Fair value gains and losses on the currency element of derivative financial instruments hedging the Group's net debt and exposures, and exchange gains and losses on borrowings are excluded, as the relevant foreign exchange gains and losses on the commercially hedged items are recognised as a separate component of other comprehensive income, in accordance with the Group's foreign currencies accounting policy.

The financing elements of non-headline legacy liabilities, including the £1m (31 January 2021: £1m) unwind of discount on provisions, are excluded from headline finance costs because these provisions were originally recognised as non-headline and this treatment has been maintained for ongoing costs and credits.

Other finance income comprises £3m (31 January 2021: £3m) of financing credits relating to retirement benefits. These are excluded from headline finance costs because the ongoing costs and credits are a legacy of previous employee pension arrangements.

Non-headline taxation items
The £4m non-headline taxation credit (31 January 2021: £21m charge) represents the tax attributable to the non-headline items above.

ii. DISCONTINUED OPERATIONS

The non-headline items for discontinued operations are as follows:

	Six months ended 31 January 2022 £m	Six months ended 31 January 2021 £m
Non-headline operating profit items		
Medfusion documentation remediation costs	(33)	–
Impairment of investment in Ivenix, Inc convertible debt.	(14)	–
Medical separation costs	–	(1)
Non-headline finance costs items		
Foreign exchange (loss)/gain on intercompany loan with parent	(22)	38
Gain on sale of discontinued operation		
Gain on the sale of Smiths Medical to ICU Medical, Inc (note 17)	1,021	–
Non-headline taxation items		
Taxation on non-headline items	6	3
Non-headline items in profit from discontinued operations	**958**	**40**
Profit for the period – non-headline items for continuing and discontinued operations	**952**	**(42)**

In the current period Smiths Medical recognised a provision of £33m against the expected costs of the remediation actions required to address each of the observations and discussion items contained in the US Food and Drug Administration (FDA) 'for-cause' audit findings on the Medfusion product range.

In the current period a decision was taken by Smiths Medical to exit their commercial agreement with Ivenix, Inc. These circumstances have resulted in a change in strategy and have triggered an indicator of impairment to the carrying value of the Smiths Medical investment in Ivenix, Inc. As this change in circumstances indicates that it is not currently probable that the investment will realise economic benefits, management have impaired the entire £14m value of Smiths Medical's Ivenix, Inc. investment.

In the prior year the £1m of Medical separation costs represented incremental costs incurred by the Group to separate Smiths Medical. This cost has been reported as non-headline as the full year effect of the transaction on the Group's financial statements is both material and non-recurring. In the current year separation and transaction costs incurred on the sale of the Smiths Medical business to ICU Medical, Inc have been included within the 'Gain on sale of discontinued operation' calculation (see note 17).

The £22m foreign exchange loss on intercompany loan with parent (31 January 2021: £38m gain) directly offsets the foreign exchange loss in continuing operations. This is excluded from headline net finance costs as these fair value movements are non-operational in nature and are purely a consequence of the presentational requirements for discontinued operations.

4 Earnings per share

Basic earnings per share are calculated by dividing the profit for the period attributable to equity shareholders of the Company by the average number of ordinary shares in issue during the period.

	Six months ended 31 January 2022 £m	Six months ended 31 January 2021 £m
Profit attributable to equity shareholders for the period		
- Continuing	115	21
- Discontinued	1,007	107
Total	1,122	128
Average number of shares in issue during the period (note 18)	395,260,779	396,331,156
Statutory earnings per share continuing operations – basic	29.1	5.3
Statutory earnings per share continuing operations – diluted	29.1	5.3
Statutory earnings per share total – basic	283.9	32.3
Statutory earnings per share total – diluted	283.7	32.2

Diluted earnings per share are calculated by dividing the profit attributable to ordinary shareholders by 395,537,378 (31 January 2021: 397,355,869) ordinary shares, being the average number of ordinary shares in issue during the year adjusted by the dilutive effect of employee share schemes.

A reconciliation of statutory and headline earnings per share is as follows:

	Six months ended 31 January 2022 £m	Six months ended 31 January 2022 Basic EPS (p)	Six months ended 31 January 2022 Diluted EPS (p)	Six months ended 31 January 2021 £m	Six months ended 31 January 2021 Basic EPS (p)	Six months ended 31 January 2021 Diluted EPS (p)
Basic earnings per share:						
Total profit attributable to equity shareholders of the Parent Company	1,122	283.9	283.7	128	32.3	32.2
Exclude: Non-headline items (note 3)	(952)			42		
Headline earnings per share	170	43.0	43.0	170	42.9	42.8
Profit from continuing operations attributable to equity shareholders of the Parent Company	115	29.1	29.1	21	5.3	5.3
Exclude: Non-headline items (note 3)	6			82		
Headline earnings per share – continuing operations	121	30.6	30.6	103	26.0	25.9

5 Taxation

The interim tax rate of 27.8% (31 January 2021: 74.4%) is calculated by applying the estimated effective headline tax rate for continuing operations of 28.4% (31 January 2021: 28.0%) for the year ended 31 July 2022 to headline profit before tax and then taking into account the tax effect of non-headline items in the interim period.

A reconciliation of headline and total tax charge is as follows:

	Six months ended 31 January 2022 Continuing operations £m	Six months ended 31 January 2022 Tax rate	Six months ended 31 January 2021 Continuing operations £m	Six months ended 31 January 2021 Tax rate
Headline tax rate				
Headline profit before taxation	170		145	
Taxation on headline profit	(48)	28.4%	(41)	28.0%
Adjustments				
Non-headline items excluded from profit before taxation (note 3)	(10)		(61)	
Taxation on non-headline items and non-headline tax adjustment	4		(21)	
Total interim tax rate				
Profit before taxation	160		84	
Taxation	(44)	27.8%	(62)	74.4%

The changes in the value of the net tax asset in the period were:

	Current tax £m	Deferred tax £m	Net tax balance £m
At 31 July 2021	(19)	64	45
Foreign exchange gains and losses	(1)	2	1
(Charge)/credit to income statement, continuing operations	(48)	4	(44)
Charge to income statement, discontinued operations	(5)	–	(5)
Charge to other comprehensive income	–	(7)	(7)
Tax paid	37	–	37
At 31 January 2022	**(36)**	**63**	**27**

Sale of Medical

The sale of 100% of the share capital of the UK Smiths Medical holding company completed on the 6th January 2022. The profit on sale was exempt from tax under the Substantial Shareholding Exemption.

Developments in the Group tax position

In December 2021, the Organisation for Economic Co-operation and Development ("OECD") published Pillar 2 rules, scheduled to apply from 2023, regarding the future taxation of large multinationals such as Smiths. The Group will continue to monitor the development and future implementation of these rules. However, at this time and as currently drafted, they are not expected to have a material impact on the Group.

6 Post-retirement benefits

The Group provides post-retirement benefits to employees in a number of countries throughout the world. The arrangements include defined benefit and defined contribution plans and, mainly in the United Kingdom (UK) and United States of America (US), post-retirement healthcare. The principal defined benefit pension plans are in the UK and US, and these have been closed so that no future benefits are accrued.

Where any individual scheme shows a surplus under IAS 19, this is disclosed on the balance sheet as a retirement benefit asset. The IAS 19 surplus of any one scheme is not available to fund the IAS 19 deficit of another scheme. The retirement benefit asset arises from the rights of the employers to recover the surplus at the end of the life of the scheme. The schemes in surplus are mature, with a duration averaged over all scheme participants, of 16 years.

The amounts recognised in the balance sheet are as follows:

	31 January 2022 £m	31 July 2021 £m
Market value of scheme assets	4,155	4,406
Present value of funded scheme liabilities	(3,602)	(3,869)
Surplus	553	537
Unfunded pension plans	(111)	(116)
Post-retirement healthcare	(7)	(8)
Present value of unfunded obligations	(118)	(124)
Net retirement benefit asset	**435**	**413**
Post-retirement assets	565	546
Post-retirement liabilities	(130)	(128)
Liabilities held for sale (note 17)	–	(5)
Net retirement benefit asset	**435**	**413**

The principal assumptions used in updating the valuations are set out below:

	31 January 2022		31 July 2021	
	UK	US	UK	US
Weighted average rate of increase in benefits for active deferred members	4.4%	n/a	4.2%	n/a
Rate of increase in pensions in payment	3.6%	n/a	3.3%	n/a
Rate of increase in deferred pensions	3.6%	n/a	3.3%	n/a
Discount rate	2.3%	3.2%	1.7%	2.7%

The methods for setting the mortality assumptions for the UK schemes are consistent with the 31 July 2021 valuation. The US schemes have adopted the mortality improvement scale MP-2021 (31 July 2021: MP-2020).

Present value of funded scheme liabilities and assets for the main UK and US schemes

	31 January 2022 – £m			31 July 2021 – £m		
	SIPS	TIGPS	US schemes	SIPS	TIGPS	US schemes
Present value of funded scheme liabilities						
– Active deferred members	(39)	(27)	(53)	(42)	(29)	(73)
– Deferred members	(739)	(568)	(130)	(810)	(632)	(119)
– Pensioners	(1,168)	(757)	(79)	(1,226)	(809)	(81)
Present value of funded scheme liabilities	(1,946)	(1,352)	(262)	(2,078)	(1,470)	(273)
Market value of scheme assets	2,287	1,576	257	2,410	1,684	272
Surplus/(deficit)	**341**	**224**	**(5)**	**332**	**214**	**(1)**

Contributions

Group contributions to the pension plans in the period totalled £6m (31 January 2021: £16m), comprising regular contributions of £3m (31 January 2021: £6m) to Smiths Industries Pension Scheme ('SIPS'), £nil (31 January 2021: £6m) to TI Group Pension Scheme ('TIGPS') and £nil (31 January 2021: £4m) to funded US Schemes. In addition, £3m (31 January 2021: £3m) was paid to unfunded defined benefit pension schemes and post-retirement healthcare plans. No additional contributions to support risk reduction programmes were made in the current or previous period.

The changes in the present value of the net pension balance in the period were:

	Six months ended 31 January 2022 £m	Year ended 31 July 2021 £m
At beginning of period	413	372
Foreign exchange rate movements	2	5
Current service cost	(1)	(2)
Scheme administration costs	(2)	(5)
Past service costs	(8)	(6)
Curtailments and settlements	(1)	–
Finance income – retirement benefits	3	6
Contributions by employer	6	30
Actuarial gains	18	13
Retirement benefit obligations disposed of with Smiths Medical (note 17)	5	–
Net retirement benefit asset at end of period	**435**	**413**

Past service costs, curtailments and settlements

In SIPS, it has been discovered that the method used in the early 1990s to equalise retirement ages between men and women in one of its smaller benefits sections was incorrect. An additional liability of £8m has been recognised within the SIPS defined benefit obligation at 31 January 2022 to reflect the correction of this issue. The cost of £8m has been recognised as a past service cost.

7 Intangible assets

	Goodwill £m	Development costs £m	Acquired intangibles £m	Software, patents and intellectual property £m	Total £m
Cost					
At 31 July 2021	1,207	156	562	177	2,102
Exchange adjustments	19	–	15	2	36
Additions	–	4	–	3	7
Disposals	–	–	–	(6)	(6)
At 31 January 2022	**1,226**	**160**	**577**	**176**	**2,139**
Amortisation					
At 31 July 2021	59	114	287	144	604
Exchange adjustments	–	1	7	–	8
Charge for the period	–	2	26	3	31
Disposals	–	–	–	(6)	(6)
At 31 January 2022	**59**	**117**	**320**	**141**	**637**
Net book value at 31 January 2022	**1,167**	**43**	**257**	**35**	**1,502**
Net book value at 31 July 2021	1,148	42	275	33	1,498

Review for impairment assessment trigger events

In accordance with IAS 34 ‘Interim financial reporting’, management has undertaken a review for indications of impairment and concluded that no impairment assessment trigger events have occurred in the half year. It was noted in the FY2021 annual report that Smiths Detection was the only Group CGU where a reasonable change in the impairment testing assumptions could result in the recognition of impairment charges.

It is management’s judgement that Smiths Detection’s adverse performance in HY2022 compared to the prior year is a result of temporary rather than permanent macro-economic factors and that the negative impact of supply chain distortions is expected to reverse in the medium term.

8 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 31 July 2021	172	388	122	682
Exchange adjustments	3	6	–	9
Additions	2	20	2	24
Disposals	(3)	(5)	(2)	(10)
At 31 January 2022	**174**	**409**	**122**	**705**
Depreciation				
At 31 July 2021	106	260	104	470
Exchange adjustments	2	4	–	6
Charge for the period	4	12	3	19
Disposals	(3)	(5)	(2)	(10)
At 31 January 2022	**109**	**271**	**105**	**485**
Net book value at 31 January 2022	**65**	**138**	**17**	**220**
Net book value at 31 July 2021	66	128	18	212

9 Right of use assets

	Properties £m	Vehicles £m	Equipment £m	Total £m
Cost				
At 31 July 2021	146	17	1	164
Foreign exchange rate movements	2	–	–	2
Recognition of right of use assets	5	2	–	7
Modification of right of use assets	4	–	–	4
At 31 January 2022	**157**	**19**	**1**	**177**
Depreciation				
At 31 July 2021	46	10	–	56
Foreign exchange rate movements	1	–	–	1
Charge for the year	13	2	–	15
At 31 January 2022	**60**	**12**	**–**	**72**
Net book value at 31 January 2022	**97**	**7**	**1**	**105**
Net book value at 31 July 2021	100	7	1	108

10 Financial assets – other investments

	Investment in ICU Medical, Inc equity £m	Deferred contingent consideration £m	Investments in early stage businesses £m	Cash collateral deposit £m	Total £m
At 31 July 2021	–	–	7	4	11
Additions	426	30	4	–	460
Impairment	–	–	(3)	–	(3)
Fair value change through Other Comprehensive Income	(29)	–	–	–	(29)
At 31 January 2022	**397**	**30**	**8**	**4**	**439**

11 Borrowings and net cash/(debt)

This note sets out the calculation of net cash/(debt), an important measure in explaining our financing position. The net cash/(debt) figure includes accrued interest and fair value adjustments to debt relating to hedge accounting.

	31 January 2022 £m	31 July 2021 £m
Cash and cash equivalents		
Net cash and cash equivalents	**1,710**	**405**
Short-term borrowings		
$400m 3.625% US$ Guaranteed notes 2022	(299)	–
Lease liabilities	(26)	(27)
Interest accrual	(18)	(9)
	(343)	**(36)**
Long-term borrowings		
$400m 3.625% US$ Guaranteed notes 2022	–	(289)
€600m 1.25% Eurobond 2023	(503)	(516)
€650m 2.00% Eurobond 2027	(547)	(567)
Lease liabilities	(92)	(94)
	(1,142)	**(1,466)**
Borrowings	**(1,485)**	**(1,502)**
Derivatives managing interest rate risk and currency profile of the debt	**37**	**75**
Net cash/(debt) (31 July 2021 comparative excludes £18m of net debt in businesses held for sale)	**262**	**(1,022)**

Analysis of financial derivatives on balance sheet

	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Net balance £m
Derivatives managing interest rate risk and currency profile of the debt	36	1	–	–	37
Foreign exchange forward contracts	–	7	(8)	–	(1)
At 31 January 2022	**36**	**8**	**(8)**	**–**	**36**
Derivatives managing interest rate risk and currency profile of the debt	75	–	–	–	75
Foreign exchange forward contracts	–	2	(3)	–	(1)
At 31 January 2021	**75**	**2**	**(3)**	**–**	**74**

Movements in net cash/(debt)

	Cash and cash equivalents £m	Short-term borrowings £m	Long-term borrowings £m	Interest rate and cross currency swaps £m	Net cash/(debt) £m
At 31 July 2021	405	(36)	(1,466)	75	(1,022)
Foreign exchange gains/(losses)	14	(10)	22	–	26
Net increase in cash and cash equivalents	1,243	–	–	–	1,243
Movement in net cash held in disposal group	48	–	–	–	48
Net movement in lease liabilities	–	5	–	–	5
Fair value movement from interest rate hedging	–	1	11	–	12
Revaluation of derivative contracts	–	–	–	(38)	(38)
Net movement in finance cost accruals	–	(3)	(9)	–	(12)
Reclassification to short-term	–	(300)	300	–	–
At 31 January 2022	**1,710**	**(343)**	**(1,142)**	**37**	**262**

12 Fair value of financial instruments

		As at 31 January 2022					As at 31 July 2021				
	Basis for determining fair value	At amortised cost £m	At fair value through profit or loss £m	At fair value through OCI £m	Total carrying value £m	Total fair value £m	At amortised cost £m	At fair value through profit or loss £m	At fair value through OCI £m	Total carrying value £m	Total fair value £m
Financial assets											
Other investments	A	–	4	397	401	401	–	4	–	4	4
Other investments	F	–	30	8	38	38	–	–	7	7	7
Cash and cash equivalents	A	387	1,323	–	1,710	1,710	289	116	–	405	405
Trade and other financial receivables	B/C	684	–	–	684	684	689	–	–	689	689
Derivative financial instruments	C	–	44	–	44	44	–	77	–	77	77
Total financial assets		**1,071**	**1,401**	**405**	**2,877**	**2,877**	**978**	**197**	**7**	**1,182**	**1,182**
Financial liabilities											
Trade and other financial payables	B	(630)	–	–	(630)	(630)	(589)	–	–	(589)	(589)
Short-term borrowings	D	(316)	–	–	(316)	(316)	(9)	–	–	(9)	(9)
Long-term borrowings	D	(1,050)	–	–	(1,050)	(1,075)	(1,372)	–	–	(1,372)	(1,429)
Lease liabilities	E	(118)	–	–	(118)	(118)	(121)	–	–	(121)	(121)
Derivative financial instruments	C	–	(8)	–	(8)	(8)	–	(3)	–	(3)	(3)
Total financial liabilities		**(2,114)**	**(8)**	–	**(2,122)**	**(2,147)**	**(2,091)**	**(3)**	**–**	**(2,094)**	**(2,151)**

The fair value of a financial instrument is the price at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Fair values have been determined with reference to available market information at the balance sheet date, using the methodologies described below:

A Carrying value is assumed to be a reasonable approximation to fair value for all of these assets and liabilities (Level 1 as defined by IFRS 13 Fair Value Measurement).

B Carrying value is assumed to be a reasonable approximation to fair value for all of these assets and liabilities (Level 2 as defined by IFRS 13 Fair Value Measurement).

C Fair values of derivative financial assets and liabilities and trade receivables held to collect or sell are estimated by discounting expected future contractual cash-flows using prevailing interest rate curves. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. These financial instruments are included on the balance sheet at fair value, derived from observable market prices (Level 2 as defined by IFRS 13 Fair Value Measurement).

D Borrowings are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated using quoted prices (Level 1 as defined by IFRS 13).

E Leases are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of the lease contract is estimated by discounting contractual future cash-flows (Level 2 as defined by IFRS 13).

F The fair value of instruments is estimated by using unobservable inputs to the extent that relevant observable inputs are not available. Unobservable inputs are developed using the best information available in the circumstances, which may include the Group's own data, taking into account all information about market participation assumptions that is reliably available (Level 3 as defined by IFRS 13).

IFRS 13 defines a three level valuation hierarchy:

Level 1 - quoted prices for similar instruments
Level 2 - directly observable market inputs other than Level 1 inputs
Level 3 - inputs not based on observable market data

13 Provisions and contingent liabilities

	Headline £m	Non-headline and legacy: John Crane, Inc. litigation £m	Titeflex Corporation litigation £m	Other £m	Total £m
Current liabilities	10	26	8	2	46
Non-current liabilities	1	186	39	15	241
At 31 July 2021	11	212	47	17	287
Foreign exchange rate movements	–	7	2	1	10
Provision charged	2	–	–	42	44
Provision released	(2)	(1)	(2)	(1)	(6)
Unwind of provision discount	–	1	–	–	1
Utilisation	(1)	(10)	(2)	–	(13)
At 31 January 2022	**10**	**209**	**45**	**59**	**323**
Current liabilities	8	26	10	45	89
Non-current liabilities	2	183	35	14	234
At 31 January 2022	**10**	**209**	**45**	**59**	**323**

The John Crane, Inc. and Titeflex Corporation litigation provisions are the only provisions which are discounted.

Headline provisions and contingent liabilities:

Warranty provision and product liability

At 31 January 2022 there are warranty and product liability provisions of £7m (31 July 2021: £9m). Warranties over the Group's products typically cover periods of between one and three years. Provision is made for the likely cost of after-sales support based on the recent past experience of individual businesses.

Commercial disputes and litigation in respect of ongoing business activities

The Group has on occasion been required to take legal action to protect its intellectual property and other rights against infringement. It has also had to defend itself against proceedings brought by other parties, including product liability and insurance subrogation claims. Provision is made for any expected costs and liabilities in relation to these proceedings where appropriate, although there can be no guarantee that such provisions (which may be subject to potentially material revision from time to time) will accurately predict the actual costs and liabilities that may be incurred.

Contingent liabilities

In the ordinary course of its business, the Group is subject to commercial disputes and litigation such as government price audits, product liability claims, employee disputes and other kinds of lawsuits, and faces different types of legal issues in different jurisdictions. The high level of activity in the US, for example, exposes the Group to the likelihood of various types of litigation commonplace in that country, such as 'mass tort' and 'class action' litigation, legal challenges to the scope and validity of patents, and product liability and insurance subrogation claims. These types of proceedings (or the threat of them) are also used to create pressure to encourage negotiated settlement of disputes. Any claim brought against the Group (with or without merit) could be costly to defend. These matters are inherently difficult to quantify. In appropriate cases a provision is recognised based on best estimates and management judgement, but there can be no guarantee that these provisions (which may be subject to potentially material revision from time to time) will result in an accurate prediction of the actual costs and liabilities that may be incurred. There are also contingent liabilities in respect of litigation for which no provisions are made.

The Group operates in some markets where the risk of unethical or corrupt behaviour is material and has procedures, including an employee 'Ethics Alertline', to help it identify potential issues. Such procedures will, from time to time, give rise to internal investigations, sometimes conducted with external support, to ensure that the Group properly understands risks and concerns and can take steps both to manage immediate issues and to improve its practices and procedures for the future. The Group is not aware of any issues which are expected to generate material financial exposures.

Non-headline and legacy provisions and contingent liabilities:

John Crane, Inc.

John Crane, Inc. ("JCI") is one of many co-defendants in numerous lawsuits pending in the US in which plaintiffs are claiming damages arising from alleged exposure to, or use of, products previously manufactured which contained asbestos. The JCI products generally referred to in these cases consist of industrial sealing product, primarily packing and gaskets. The asbestos was encapsulated within these products in such a manner that causes JCI to believe, based on tests conducted on its behalf, that the products were safe. JCI ceased manufacturing products containing asbestos in 1985.

The table below summarises the JCI claims experience over the last 40 years since the start of this litigation:

	31 January 2022	31 July 2021	31 July 2020	31 July 2019	31 July 2018
JCI claims experience					
Claims against JCI that have been dismissed	306,000	305,000	297,000	285,000	277,000
Claims in which JCI is currently a defendant	22,000	22,000	25,000	38,000	43,000
Cumulative final judgments, after appeals, against JCI since 1979	149	149	149	144	140
Cumulative value of awards ($m) since 1979	175	175	175	168	164

John Crane, Inc. litigation insurance recoveries

JCI has certain excess liability insurance which may provide coverage for certain asbestos claims. JCI has also collected recoveries from its insurers in settlement of now concluded litigation in the US. JCI meets its asbestos defence costs directly. The calculation of the provision does not take account of any recoveries from insurers. See table below for the cost recovery achieved in both the current and prior periods.

John Crane, Inc. litigation provision

The provision is based on past history and published tables of asbestos incidence projections and is determined using asbestos valuation experts, Bates White LLC. The assumptions made in assessing the appropriate level of provision include: the period over which the expenditure can be reliably estimated; the future trend of legal costs; the rate of future claims filed; the rate of successful resolution of claims; and the average amount of judgments awarded.

The JCI asbestos litigation provision has developed in the period as follows:

	Six months ended 31 January 2022 £m	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m	Year ended 31 July 2019 £m	Year ended 31 July 2018 £m
John Crane, Inc. litigation provision					
Gross provision	225	220	235	257	251
Discount	(16)	(8)	(4)	(20)	(28)
Discounted provision	209	212	231	237	223
Taxation	(53)	(54)	(59)	(50)	(48)
Discounted post-tax provision	**156**	**158**	**172**	**187**	**175**
Operating profit (credit)/charge					
Increased provision for adverse judgments and legal defence costs	7	10	14	7	13
Change in US risk free rates	(8)	(5)	16	8	(6)
Subtotal – items (credited)/charged to the provision	(1)	5	30	15	7
Litigation management expense - legal fees in connection with litigation against insurers and defence strategy	–	1	1	2	3
Recoveries from insurers	–	(9)	(3)	(11)	–
Total operating profit (credit)/charge	**(1)**	**(3)**	**28**	**6**	**10**
Cash-flow					
Provision utilisation - legal defence costs and adverse judgements	(10)	(13)	(23)	(24)	(27)
Litigation management expense	–	–	(1)	(2)	(3)
Recoveries from insurers	–	9	3	11	–
Net cash outflow	**(10)**	**(4)**	**(21)**	**(15)**	**(30)**

John Crane, Inc. litigation provision sensitivities

The provision may be subject to potentially material revision from time to time if new information becomes available as a result of future events. There can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred because of the significant uncertainty associated with the future level of asbestos claims and of the costs arising out of related litigation.

Statistical reliability of projections over the ten year time horizon

In order to evaluate the statistical reliability of the projections, a population of outcomes is modelled using randomised verdict outcomes. This generated a distribution of outcomes with future spend at the 5th percentile of £190m and future spend at the 95th percentile of £242m (31 July 2021: £191m and £246m, respectively). Statistical analysis of the distribution of these outcomes indicates that there is a 50% probability that the total future spend will fall between £212m and £234m (31 July 2021: between £209m and £230m), compared with the gross provision value of £225m (31 July 2021: £220m).

Sensitivity of the projections to changes in the time horizon used

If the asbestos litigation environment becomes more volatile and uncertain, for example if defendants are successful in legal cases against plaintiff law firms and this impacts the nature of claims filed, the time horizon over which the provision can be calculated may reduce. Conversely, if the environment became more stable, or JCI changed approach and committed to long term settlement arrangements, the time period covered by the provision might be extended.

The projections use a 10 year time horizon. Reducing the time horizon by one year would reduce the discounted pre-tax provision by £16m (31 July 2021: £17m) and reducing it by five years would reduce the discounted pre-tax provision by £90m (31 July 2021: £93m).

We consider, after obtaining advice from Bates White LLC, that to forecast beyond ten years requires that the litigation environment remains largely unchanged with respect to the historical experience used for estimating future asbestos expenditures. Historically, the asbestos litigation environment has undergone significant changes more often than every ten years. If one assumed that the asbestos litigation environment would remain unchanged for longer and extended the time horizon by one year, it would increase the discounted pre-tax provision by £13m (31 July 2021: £14m); extending it by five years would increase the discounted pre-tax provision by £54m (31 July 2021: £58m). However, there are also reasonable scenarios that, given certain recent events in the US asbestos litigation environment, would result in no additional asbestos litigation for JCI beyond ten years. At this time, how the asbestos litigation environment may evolve beyond 10 years is not reasonably estimable.

John Crane, Inc. contingent liabilities

Provision has been made for future defence costs and the cost of adverse judgments expected to occur. JCI's claims experience is significantly impacted by other factors which influence the US litigation environment. These include: changing approaches on the part of the plaintiffs' bar; changing attitudes amongst the judiciary at both trial and appellate levels; and legislative and procedural changes in both the state and federal court systems. As a result, whilst the Group anticipates that asbestos litigation will continue beyond the period covered by the provision, the uncertainty surrounding the US litigation environment beyond this point is such that the costs cannot be reliably estimated.

Although the methodology used to calculate the JCI litigation provision can in theory be applied to show claims and costs for longer periods, the directors consider, based on advice from Bates White LLC, that the level of uncertainty regarding the factors used in estimating future costs is too great to provide for reasonable estimation of the number of future claims, the nature of such claims or the cost to resolve them for years beyond the 10 year time horizon.

Titeflex Corporation litigation

In recent years Titeflex Corporation, a subsidiary of the Group in the Flex-Tek division, has received a number of claims from insurance companies seeking recompense on a subrogated basis for the effects of damage allegedly caused by lightning strikes in relation to its flexible gas piping product. It has also received a number of product liability claims regarding this product, some in the form of purported class actions. Titeflex Corporation believes that its products are a safe and effective means of delivering gas when installed in accordance with the manufacturer's instructions and local and national codes; however some claims have been settled on an individual basis without admission of liability. Equivalent third-party products in the US marketplace face similar challenges.

Titeflex Corporation litigation provision

The continuing progress of claims and the pattern of settlement provide sufficient evidence to recognise a liability in the accounts. Therefore provision has been made for the costs which the Group is expected to incur in respect of future claims to the extent that such costs can be reliably estimated. Titeflex Corporation sells flexible gas piping with extensive installation and safety guidance (revised in 2008) designed to assure the safety of the product and minimise the risk of damage associated with lightning strikes.

The assumptions made in assessing the appropriate level of provision, which are based on past experience, include: the period over which expenditure can be reliably estimated; the number of future settlements; the average amount of settlements; and the impact of statutes of repose and safe installation initiatives on the expected number of future claims. The assumptions relating to the number of future settlements exclude FY2021 claims history as the number of claims arising in this financial year is considered to be artificially deflated due to the impact of COVID-19 lockdowns.

The provision of £45m (31 July 2021: £47m) is a discounted pre-tax provision using discount rates, being the risk-free rate on US debt instruments for the appropriate period. The deferred tax asset related to this provision is shown within the deferred tax balance.

	31 January 2022 £m	31 July 2021 £m
Gross provision	67	69
Discount	(22)	(22)
Discounted pre-tax provision	**45**	**47**
Taxation	(10)	(11)
Discounted post-tax provision	**35**	**36**

Titeflex Corporation litigation provision sensitivities

The significant uncertainty associated with the future level of claims and of the costs arising out of related litigation means that there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred. Therefore the provision may be subject to potentially material revision from time to time, if new information becomes available as a result of future events.

The projections incorporate a long-term assumption regarding the impact of safe installation initiatives on the level of future claims. If the assumed annual benefit of bonding and grounding initiatives were 0.5% higher, the discounted pre-tax provision would be £3m (31 July 2021: £4m) lower, and if the benefit were 0.5% lower, the discounted pre-tax provision would be £4m (31 July 2021: £4m) higher.

The projections use assumptions of future claims that are based on both the number of future settlements and the average amount of those settlements. If the assumed average number of future settlements increased 10%, the discounted pre-tax provision would rise by £3m (31 July 2021: £4m), with an equivalent fall for a reduction of 10%. If the assumed amount of those settlements increased 10%, the discounted pre-tax provision would rise by £3m (31 July 2021: £3m), also with an equivalent fall for a reduction of 10%.

Other non-headline and legacy

Legacy provisions comprise provisions relating to former business activities and properties no longer used by Smiths. Non-headline provisions comprise all provisions that were disclosed as non-headline items when they were charged to the consolidated income statement. These provisions include non-headline reorganisation, separation expenses, disposal indemnities and litigation in respect of old products and discontinued business activities.

14 Dividends

The following dividends were declared and paid in the period:

	Six months ended 31 January 2022 £m	Six months ended 31 January 2021 £m
Dividends paid in the period	103	138

In the current period an ordinary final dividend of 26.0p, was paid on 19 November 2021. In the comparative period a total dividend of 35.0p, comprising a delayed interim dividend of 11.0p and an ordinary final dividend of 24.0p, was paid in respect of FY2020.

An interim dividend of 12.3 pence per share was declared by the Board on 24 March 2022 and will be paid to shareholders on 13 May 2022. This dividend has not been included as a liability in these accounts and is payable to all shareholders on the register of members at close of business on 8 April 2022.

15 Cash-flow from operating activities

	Six months ended 31 January 2022			Six months ended 31 January 2021		
	Headline £m	Non-headline (note 3) £m	Total £m	Headline £m	Non-headline (note 3) £m	Total £m
Operating profit/(loss) - continuing operations	189	(32)	157	166	(23)	143
- discontinued operations	66	(47)	19	89	(1)	88
Amortisation of intangible assets	5	26	31	6	27	33
Depreciation of property, plant and equipment	19	–	19	19	–	19
Depreciation of right of use assets	15	–	15	15	–	15
(Gain)/loss on disposal of property, plant and equipment	(1)	–	(1)	1	–	1
Impairment of investment in Ivenix, Inc.	–	14	14	–	–	–
Share-based payment expense	5	–	5	6	–	6
Retirement benefits	3	2	5	2	(12)	(10)
Distribution from trading investment	–	–	–	4	–	4
Recycling of cash flow hedge reserve	(3)	–	(3)	1	–	1
(Increase)/decrease in inventories	(79)	1	(78)	35	–	35
Decrease/(increase) in trade and other receivables	17	–	17	88	(2)	86
Increase/(decrease) in trade and other payables	22	(43)	(21)	(73)	(4)	(77)
(Decrease)/increase in provisions	(2)	60	58	(3)	(14)	(17)
Cash generated from operations	**256**	**(19)**	**237**	**356**	**(29)**	**327**
Interest paid	(12)	–	(12)	(12)	–	(12)
Interest received	3	–	3	2	–	2
Tax paid	(46)	–	(46)	(55)	–	(55)
Net cash inflow/(outflow) from operating activities	**201**	**(19)**	**182**	**291**	**(29)**	**262**
- continuing operations	155	(19)	136	230	(26)	204
- discontinued operations	46	–	46	61	(3)	58

The split of tax payments between headline and non-headline only considers the nature of payments made. No adjustment has been made for reductions in tax payments required as a result of tax relief received on non-headline items.

Headline cash measures – continuing operations

The Group measure of headline operating cash excludes interest and tax, and includes capital expenditure supporting organic growth. The Group uses operating cash-flow for the calculation of cash conversion and free cash-flow for management of capital purposes. See note 19 for additional details.

The table below reconciles the Group's net cash-flow from operating activities to headline operating cash-flow and free cash-flow:

	Six months ended 31 January 2022			Six months ended 31 January 2021		
	Headline £m	Non-headline £m	Total £m	Headline £m	Non-headline £m	Total £m
Net cash inflow/(outflow) from operating activities	155	(19)	136	230	(26)	204
Include:						
Expenditure on capitalised development, other intangible assets and property, plant and equipment	(31)	–	(31)	(28)	–	(28)
Repayment of lease liabilities	(15)	–	(15)	(17)	–	(17)
Disposals of property, plant and equipment	1	–	1	–	–	–
Investment in financial assets relating to operating activities and pensions financing outstanding at the balance sheet date	–	–	–	4	–	4
Free cash-flow			**91**			**163**
Exclude:						
Investment in financial assets relating to operating activities and pensions financing outstanding at the balance sheet date	–	–	–	(4)	–	(4)
Repayment of lease liabilities	15	–	15	17	–	17
Interest paid	8	–	8	6	–	6
Interest received	(3)	–	(3)	(2)	–	(2)
Tax paid	37	–	37	48	–	48
Operating cash-flow	**167**	**(19)**	**148**	**254**	**(26)**	**228**

Headline cash conversion

Headline operating cash conversion for continuing operations is calculated as follows:

	Six months ended 31 January 2022			Six months ended 31 January 2021		
	As reported £m	Restructuring costs £m	Pro-forma excl. restructuring costs £m	As reported £m	Restructuring costs £m	Pro-forma excl. restructuring costs £m
Headline operating profit	189	–	189	166	1	167
Headline operating cash-flow	167	8	175	254	10	264
Headline operating cash conversion	**88%**		**93%**	**153%**		**158%**

Reconciliation of free cash-flow to total movement in cash and cash equivalents

	Six months ended 31 January 2022 £m	Six months ended 31 January 2021 £m
Free cash-flow	**91**	**171**
Free cash-flow from discontinued operations	25	17
Investment in financial assets and acquisition of businesses	(4)	(5)
Disposal of businesses and discontinued operations	1,348	–
Other net cash-flows used in financing activities (note: repayment of lease liability is included in free cash-flow)	(217)	(158)
Net increase in cash and cash equivalents	**1,243**	**25**

16 Related party transactions

The related party transactions in the period were consistent with the nature and size of transactions disclosed in the Annual Report for the year ended 31 July 2021.

17 Discontinued operations

Following the Board decision in July 2021 to pursue a sale process, the Smiths Medical business was classified as a discontinued operation and a business held for sale. On 8 September 2021, the Group announced that it had agreed the sale of Smiths Medical to ICU Medical, Inc., and the approval of Smiths' shareholders was received at the General Meeting on 17 November 2021.

The sale was completed on 6 January 2022 and the results of the discontinued operation and the effect of the disposal on the financial position of the Group were as follows:

Discontinued operations

The financial performance of the Smiths Medical business in the current and prior period is presented below:

	Six months ended 31 January 2022			Six months ended 31 January 2021		
	Headline £m	Non-headline (note 3) £m	Total £m	Headline £m	Non-headline (note 3) £m	Total £m
Revenue	356	–	356	427	–	427
Direct materials, labour, production and distribution overheads	(193)	–	(193)	(224)	–	(224)
Selling costs	(46)	–	(46)	(58)	–	(58)
Administrative expenses	(51)	(47)	(98)	(56)	(1)	(57)
Operating costs	(290)	(47)	(337)	(338)	(1)	(339)
Operating profit/(loss)	**66**	**(47)**	**19**	**89**	**(1)**	**88**
Finance costs	(1)	(22)	(23)	–	38	38
Gain on sale of discontinued operation	–	1,021	1,021	–	–	–
Taxation	(16)	6	(10)	(22)	3	(19)
Profit from discontinued operations, net of tax	**49**	**958**	**1,007**	**67**	**40**	**107**

Additional segmental information for discontinued operations

Revenue for the Smiths Medical discontinued operation is analysed by the following product lines: Infusion Systems £116m (31 January 2021: £152m), Vascular Access £134m (31 January 2021: £133m) and Vital Care/Other £106m (31 January 2021: £142m).

Cash-flow from discontinued operations included in the consolidated cash-flow statement is as follows:

	Six months ended 31 January 2022 £m	Six months ended 31 January 2021 £m
Net cash inflow from operating activities	46	50
Net cash-flow used in investing activities	(17)	(27)
Net cash-flow used in financing activities	(13)	(15)
Net increase in cash and cash equivalents	**16**	**8**
Opening cash and cash equivalents in disposal group	48	20
Foreign exchange movements	(7)	(4)
Cash and cash equivalents disposed of	**57**	
Cash and cash equivalents at close of period		**24**

Effect of disposal on the financial position of the Group

	Six months ended 31 January 2022 £m
Intangible assets	695
Property, plant and equipment	170
Right of use assets	64
Inventories	166
Deferred tax assets	20
Current tax receivable	3
Trade and other receivables	110
Cash and cash equivalents	57
Financial derivatives	4
Lease liabilities	(41)
Trade and other payables	(167)
Current tax payable	(13)
Deferred tax liabilities	(56)
Retirement benefit obligations	(5)
Provisions	(39)
Net assets disposed of	**968**
Consideration received:	
Cash and cash equivalents	1,421
Transaction costs	(31)
Cash and cash equivalents, net of transaction costs	1,390
ICU Medical, Inc shares	426
Deferred contingent consideration - contingent on ICU Medical, Inc future share price	30
Separation expenses - arising from contractual and commercial obligations due to the separation recognised in period	(58)
Gain on sale before reclassification of foreign currency translation reserve	**820**
Exchange movements recycled to the income statement	196
Cash flow hedge reserve recycled to the income statement	5
Gain on sale of discontinued operation	**1,021**
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents	1,421
Transaction costs and separation expenses paid in period	(16)
Less cash and cash equivalents disposed of	(57)
	1,348

18 Share capital and share premium

	Number of shares	Average number of shares	Share capital and share premium £m	Consideration £m
Ordinary shares of 37.5p each				
At 31 July 2020	396,211,180	396,193,310	510	
Issue of new equity shares - exercise of share options	150,362	137,846	2	2
At 31 January 2021	**396,361,542**	**396,331,156**	**512**	
At 31 July 2021	396,377,114	396,350,586	512	
Issue of new equity shares - exercise of share options	131,942	145,402	2	2
Share buybacks	(6,404,868)	(1,235,209)	(3)	(111)
At 31 January 2022	**390,104,188**	**395,260,779**	**511**	

Share buybacks

In connection with the sale of Smiths Medical to ICU Medical, Inc. (see note 17 for details), the Group announced that it intends to return an amount representing 55% of the initial cash proceeds (equating to $1bn or £742m) to shareholders in the form of a share buyback programme. All shares purchased under the programme will be cancelled. This programme was initiated on 19 November 2021, and as at 31 January 2022 the Group had contracted to purchase 7.2m shares for a total consideration of £111m, of which 0.8m shares with a value of £8m were yet to settle and be cancelled.

19 Alternative performance measures

The Group uses several alternative performance measures ('APMs') in order to provide additional useful information on underlying trends and the performance and position of the Group. APMs are non-GAAP and not defined by IFRS; therefore they may not be directly comparable with other companies' APMs and should not be considered a substitute for IFRS measures.

The Group uses APMs which are common across the industry, in both planning and reporting, to enhance the comparability of information between reporting periods and business units. The measures are also used in discussions with the investment analyst community and by credit rating agencies.

We have identified and defined the following key measures which are used within the business by management to assess the performance of the Group's businesses:

APM term	Definition and purpose
Capital employed	Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets and is adjusted to add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998 and to eliminate post-retirement benefit assets and liabilities and litigation provisions related to John Crane, Inc. and Titeflex Corporation, both net of deferred tax, the investment in ICU Medical, Inc. equity, the deferred consideration contingent on ICU Medical, Inc's share price, and net debt. It is used to monitor capital allocation within the Group. See below for a reconciliation from net assets to capital employed.
Capital expenditure	Comprises additions to property, plant and equipment, capitalised development and other intangible assets, excluding assets acquired through business combinations; see note 15 for an analysis of capital expenditure. This measure quantifies the level of capital investment into ongoing operations.
Divisional headline operating profit ('DHOP')	DHOP comprises divisional earnings before central costs, finance costs and taxation. DHOP is used to monitor divisional performance. A reconciliation of DHOP to operating profit is shown in note 2.
Free cash-flow	Free cash-flow is calculated by adjusting the net cash inflow from operating activities to include capital expenditure, the repayment of lease liabilities and proceeds from the disposal of property, plant and equipment. The measure shows cash generated by the Group before discretionary expenditure on acquisitions and returns to shareholders. A reconciliation of free cash-flow is shown in note 15.
Gross debt	Gross debt is total borrowings (bank, bonds and lease liabilities). It is used to provide an indication of the Group's overall level of indebtedness. See below for an analysis of gross debt.
Headline	The Group has defined a 'headline' measure of performance that excludes material non-recurring items or items considered non-operational/trading in nature. Items excluded from headline are referred to as non-headline items. This measure is used by the Group to measure and monitor performance excluding material non-recurring items or items considered non-operational. See note 3 for an analysis of non-headline items.
Headline EBITDA	EBITDA is a widely used profit measure, not defined by IFRS, being earnings before interest, taxation, depreciation and amortisation. See below for a reconciliation of headline operating profit to headline EBITDA.
Headline EBITDA before restructuring costs and write-downs	Headline EBITDA, as defined above, is adjusted to exclude restructuring costs from the Group's strategic restructuring programme which commenced in FY2020. A reconciliation of Headline EBITDA to Headline EBITDA before restructuring costs and write-downs is shown in the note below.
Headline operating profit excluding restructuring and write-downs	Headline operating profit is adjusted for strategic restructuring programme costs and write-downs. See note 15 for a reconciliation. This measure of profitability is used by the Group to measure and monitor performance.
Net cash/(debt)	Net cash/(debt) is total borrowings (bank, bonds and lease liabilities) less cash balances and derivatives used to manage the interest rate risk and currency profile of the debt. This measure is used to provide an indication of the Group's overall level of indebtedness and is widely used by investors and credit rating agencies. See note 11 for an analysis of net cash/(debt).
Non-headline	The Group has defined a 'headline' measure of performance that excludes material non-recurring items or items considered non-operational/trading in nature. Items excluded from headline are referred to as non-headline items. This is used by the Group to measure and monitor material non-recurring items or items considered non-operational. See note 3 for an analysis of non-headline items.
Operating cash-flow	Operating cash-flow is calculated by adjusting the net cash inflow from operating activities to include capital expenditure and proceeds from the disposal of property, plant and equipment and to exclude cash-flows relating to interest and taxation. The measure shows how cash is generated from operations in the Group. A reconciliation of operating cash-flow is shown in note 15.
Operating profit	Operating profit is earnings before finance costs and tax. A reconciliation of operating profit to profit before tax is shown on the income statement. This common measure is used by the Group to measure and monitor performance.
Return on capital employed ('ROCE')	Smiths ROCE is calculated over a rolling 12-month period and is the percentage that headline operating profit represents of the monthly average capital employed on a rolling 12-month basis. This measure of return on invested resources is used to monitor performance and capital allocation within the Group. See below for Group ROCE and note 2 for divisional headline operating profit and divisional capital employed.

The key performance indicators ('KPIs') used by management to assess the performance of the Group's businesses are as follows:

KPI term	Definition and purpose
Aftermarket % of sales	The aftermarket percentage of sales is defined as the proportion of revenue derived from aftermarket sales. Aftermarket sales are a core characteristic of Smiths' businesses and are an indicator of resilient, repeatable revenue for the Group.
Dividend cover – headline	Dividend cover is the ratio of headline earnings per share (see note 4) to dividend per share (see note 14). This commonly used measure indicates the number of times the dividend in a financial year is covered by headline earnings.

Free cash-flow (as a % of operating profit)	This measure is defined as free cash-flow divided by headline operating profit. The average over a three-year period is used by the Group as a performance measure for remuneration purposes.
Headline cash conversion	Comprises cash-flow from operations before non-headline items, as a percentage of headline operating profit. This measure is used to show the proportion of headline operating profit converted into cash-flow from operations before investment, finance costs, non-headline items and taxation. The calculation is shown in note 15.
Headline operating profit margin	Headline operating profit margin is calculated by dividing headline operating profit by revenue. This measure is used to monitor the Group's ability to drive profitable growth and control costs.
Portfolio strength	Portfolio strength is defined as the percentage of revenue derived from products that are positioned in the top three in their markets. Portfolio strength is used to measure the success of the Group's strategy to actively manage its portfolio of businesses to operate in growing markets where it can achieve a sustainable top-three leadership position
R&D cash costs as a % of sales	This measure is defined as the cash cost of research and development activities as a percentage of revenue. Innovation is an important driver of sustainable growth for the Group and this measures our investment in research and development to drive innovation.
Ratio of capital expenditure to depreciation and amortisation	Represents the amount of capital expenditure as a proportion of the depreciation and amortisation charge for the period. This measure shows the level of reinvestment into operations.
Stock turns	Stock turns during the year is calculated as the last 12 months' cost of sales divided by the 12 month average inventory. This measure is used by the Group to measure operational efficiency.
Organic revenue growth	Organic revenue growth is net revenue growth excluding the effects of foreign exchange, acquisitions and disposals (see note 17). Organic revenue growth is used by the Group to aid comparability when monitoring performance. This definition of organic revenue growth is the same as that used for underlying revenue growth in previous accounting periods. Note: Organic revenue growth was previously defined on a compound annualised basis and used by the Group for remuneration purposes.
Underlying headline operating profit growth	Underlying headline operating profit growth is net headline operating profit growth excluding the effects of foreign exchange, acquisitions, restructuring costs and write-downs, and including depreciation and amortisation of discontinued operations. Underlying headline operating profit growth is used by the Group to aid comparability when monitoring performance.
Vitality index / Gross vitality	The Vitality index or Gross vitality is calculated as the percentage of revenue over the last 12 months derived from new products and services launched in the performance period, typically five years. This measure is used to monitor the effectiveness of the Group's investment into new products and services.
Working capital	Working capital is calculated as the sum of the 12-month rolling average of inventory, trade receivables, contract assets, trade payables and contract liabilities.

Capital employed

Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets adjusted to add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998 of £478m (31 January 2021: £787m), and to eliminate post-retirement benefit assets and liabilities, litigation provisions relating to John Crane, Inc. and Titeflex Corporation, both net of related tax, the investment in ICU Medical, Inc. equity, the deferred consideration contingent on ICU Medical, Inc's share price and net debt.

	Notes	31 January 2022 £m	31 January 2021 £m
Net assets		**3,167**	**2,251**
Adjust for:			
Goodwill recognised directly in reserves		478	787
Retirement benefit assets and obligations	6	(435)	(293)
Tax related to retirement benefit assets and obligations		115	55
John Crane, Inc. litigation provisions and related tax		156	162
Titeflex Corporation litigation provisions and related tax		35	41
Investment in ICU Medical, Inc equity		(397)	–
Deferred contingent consideration		(30)	–
Net (cash)/debt (2021 comparative includes £18m of net debt in discontinued operations)		(262)	1,075
Capital employed		**2,827**	**4,078**

Return on capital employed

	Notes	31 January 2022 £m	31 January 2021 represented* £m
Headline operating profit for previous 12 months – continuing operations		395	307
Average capital employed – continuing operations (excluding investment in ICU Medical, Inc equity)		2,824	2,971
Return on capital employed ("ROCE")		**14.0%**	**10.3%**

* Following the completion of the sale of Smiths Medical, ROCE for 31 January 2021 has been represented to exclude discontinued operations from headline operating profit and average capital employed. The 31 January 2021 figures have been represented to aid the period on period comparability for this forward looking measure.

Credit metrics

The Group monitors the ratio of net debt to headline earnings before interest, tax, depreciation and amortisation as part of its management of credit ratings. This ratio is calculated as follows:

Headline earnings before interest, tax, depreciation and amortisation ("headline EBITDA")

	Notes	Six months ended 31 January 2022 Continuing operations £m	Six months ended 31 January 2021 Total operations* £m
Headline operating profit	2	**189**	**166**
Headline operating profit of discontinued operations for the comparative period	17	–	89
Exclude:			
– depreciation of property, plant and equipment	8	19	19
– depreciation of right of use assets	9	15	15
– amortisation of development costs	7	2	3
– amortisation of software, patents and intellectual property	7	3	3
Headline EBITDA		**228**	**295**

Annualised headline EBITDA

	Notes	Year ended 31 January 2022 Continuing operations £m	Year ended 31 January 2021 Total operations* £m
Headline EBITDA for the period		**228**	**295**
Add:			
– headline EBITDA for the previous year		458	610
Exclude:			
– headline EBITDA for the first six months of the previous year		(206)	(323)
Annualised headline EBITDA		**480**	**582**
Add back: restructuring costs in past 12 months (2021 comparative includes £7m in discontinued operations)		20	51
Annualised headline EBITDA before restructuring costs		**500**	**633**

Ratio of net (cash)/debt to annualised headline EBITDA before restructuring costs

	Year ended 31 January 2022 Continuing operations £m	Year ended 31 January 2021 Total operations* £m
Annualised headline EBITDA before restructuring costs	500	633
Net (cash)/debt (2021 comparative includes £18m of net debt in discontinued operations)	(262)	1,075
Ratio of net (cash)/debt to headline EBITDA before restructuring costs	**(0.5)**	**1.7**

* The figures for the comparative period in the credit metrics tables above include discontinued operations.