SMITHS GROUP PLC - HALF YEAR RESULTS FOR 6 MONTHS ENDED 31 JANUARY 2023

Pioneers of progress – improving our world through smarter engineering

Continued progress with record growth and increased FY2023 guidance

- **Record growth – organic revenue +13.5%[1], reported revenue +25.6%, EPS[2] + 52.1%**
  - Seventh consecutive quarter of growth, equally balanced between volume and price
  - Growth across all divisions, geographic regions, and major customer end markets
  - 200bps of growth from new product launches with a +13.5% increase in R&D to support future as well as current growth

- **Improving execution – Smiths Excellence System ("SES") delivering clear benefits**
  - Headline[2] operating profit growth of +27.4% with margin up +20bps to 16.1%
  - +£5m operating profit contribution from SES, scaling to +£12m for FY. Expanding programme with additional resources
  - ROCE[3] +120bps to 15.2%, driven by strong profit generation
  - Operating cash conversion[3] of 63% reflecting continued investment to secure supply and support sustainable growth

- **Inspiring & empowering our People – advancing our inclusive and high-performing culture**
  - Further progress embedding Smiths Leadership Behaviours
  - Increased investment in talent development with relaunch of our Accelerate leadership training programme
  - Actively investing in numerous diversity, equity & inclusion and employee engagement initiatives
  - Published inaugural Sustainability Report; introduced ESG targets into incentive compensation plans; on track to deliver FY2023 ESG targets

- **Strong balance sheet – a foundation for sustainable growth and shareholder returns**
  - Net debt to EBITDA of 0.8x
  - Share buyback c.90% complete
  - Proposed interim dividend of 12.9p, +5%

FY2023 Guidance

- Raising FY2023 guidance to at least 8% organic revenue growth, with moderate margin improvement

Headline[2]	**HY2023**	HY2022	Reported	**Organic[1]**
Revenue	**£1,497m**	£1,192m	+25.6%	**+13.5%**
Operating profit	**£241m**	£189m	+27.4%	**+12.7%**
Operating profit margin[3]	**16.1%**	15.9%	+20bps	**(10)bps**
Basic EPS[4]	**46.6p**	30.6p	+52.1%	
ROCE[3]	**15.2%**	14.0%	+120bps	
Operating cash conversion[3]	**63%**	93%		

Statutory	**HY2023**	HY2022	Reported
Revenue	**£1,497m**	£1,192m	+25.6%
Operating profit	**£187m**	£157m	+19.1%
Profit for the half year (after tax)	**£109m**	£1,123m	(90.2)%
Basic EPS[4]	**30.6p**	283.9p	(89.2)%
Dividend per share	**12.9p**	12.3p	+5%

Paul Keel, Chief Executive Officer, commented:

"We continued to improve our performance in H1, delivering double digit revenue and earnings growth. While we are still in the early days of executing our plan, we are pleased with the progress. I congratulate and thank my 15,000 colleagues around the world for continuing to do what we do best - improving our world through smarter engineering.

With order books healthy and trading strong, we are again raising our FY2023 organic revenue growth guidance to at least 8%, with moderate margin improvement."

Upcoming events

Date	Event
Friday 19 May 2023	Q3 Trading Update
Tuesday 26 Sept 2023	FY2023 Financial Results

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] Organic is headline adjusted to exclude the effects of foreign exchange and acquisitions.

[2] 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. Headline performance is on a Smiths Group basis, excluding the results of Smiths Medical.

[3] Alternative Performance Measures ("APMs") and Key Performance Indicators ("KPIs") are defined in note 19 to the financial statements.

[4] Basic EPS on a headline basis includes results for Smiths Group, excluding Smiths Medical in the prior period and includes the impact of the share buyback. On a statutory basis HY2022 includes the gain on disposal of Smiths Medical.

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Presentation

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

Legal Entity Identifier (LEI): 213800MJL6IPZS3ASA11

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.

OUR PRIORITIES AND TARGETS

Smiths is intrinsically strong with world-class engineering, leading positions in critical markets, and distinctive global capabilities, all underpinned by a strong financial framework. We are driving performance in line with our significant potential by focusing on three top priorities:

1) accelerating growth
2) strengthening execution and
3) doing ever more to inspire and empower our people.

The Smiths Value Engine frames our plan for delivering the medium-term targets that we have set. We have delivered seven consecutive quarters of growth since launching our plan, including record growth in HY2023.

The exhibit below summarises our priorities and progress:

Priority	Progress
Growth	• Record organic revenue growth in HY2023 • Seven consecutive quarters of growth • 200bps of growth from new product launches with a +13.5% increase in R&D
Execution	• SES continues to build momentum with 50 Black Belt projects underway • £5m benefit from SES and £7m from savings projects in HY2023 • Published our inaugural Sustainability Report
People	• Further progress embedding Smiths Leadership Behaviours throughout the organisation • Increased focus on talent development with relaunch of leadership training workshops • Annual incentive plans aligned across the Group and linked to ESG

Targets	Medium-Term Target	HY2022	HY2023	Progress
Organic revenue growth	**4-6%** *(+ M&A)*	+3.4%	**+13.5%**	Record start to the year, FY guidance raised again, with organic revenue growth of at least +8%
EPS growth	**7-10%** *(+ M&A)*	+17.7%	**+52.1%**	Strong earnings growth driven by organic profit and further enhanced by share buyback
ROCE	**15-17%**	14.0%	**15.2%**	ROCE expansion driven by increased profitability
Operating profit margin	**18-20%**	15.9%	**16.1%**	Moderate margin improvement with continued investment to support sustainable growth
Operating cash conversion	**100%+**	93%	**63%**	Strategic investment in working capital temporarily impacted cash conversion

These targets are underpinned by Smiths operational KPIs and environmental targets, including a commitment to Net Zero for Scope 1 and 2 emissions by 2040 and Net Zero for Scope 3 emissions by 2050.

HY2023 BUSINESS PERFORMANCE

The commentary below refers to Smiths Group HY2022 performance (the prior year comparator) excluding Smiths Medical, which was accounted for as 'discontinued operations' before the sale completed on 6 January 2022.

£m	HY2022	Foreign exchange	Organic movement	HY2023
Revenue	1,192	127	**178**	**1,497**
Headline operating profit	189	25	**27**	**241**
Headline operating profit margin	15.9%			**16.1%**

Smiths delivered record growth in the first half of HY2023 with organic revenue up +13.5%, equally balanced between volume and price. We also delivered strong profit growth and moderate margin improvement as we manage continued supply chain uncertainties and persistent inflation.

GROWTH

Growing faster is the primary driver of unlocking enhanced value for the Group. In HY2023 we accelerated organic revenue growth to +13.5%.

Organic revenue growth (by business)	H1 2022	H2 2022	HY2023
John Crane	+5.1%	+2.5%	**+14.6%**
Smiths Detection	(7.2) %	(11.3)%	**+14.0%**
Flex-Tek	+10.0%	+20.9%	**+17.0%**
Smiths Interconnect	+12.9%	+14.8%	**+3.3%**
Smiths Group	**+3.4%**	**+4.1%**	**+13.5%**

All businesses grew in the first half. John Crane and Smiths Detection accelerated organic revenue growth as they scaled supply to convert strong orderbooks to revenue. Flex-Tek continued to deliver strong growth across all of its end markets. Smiths Interconnect's growth continued, albeit at a more moderate pace than last year's record levels.

Revenue grew +25.6% on a reported basis, to £1,497m (HY2022: £1,192m). This included +£178m organic growth and +£127m of favourable foreign exchange translation.

Strong execution to access end market opportunity is the first of our four levers for accelerating growth.

Our business operates across four major global end markets: General Industrial, Safety & Security, Energy, and Aerospace. Our strong market positions, coupled with a portfolio balanced both geographically and by end market is a distinctive long-term advantage for Smiths.

Smiths organic revenue growth in our end markets	% of H1 2023 Smiths revenue	H1 2022	H2 2022	HY2023
General Industrial	42%	+5.7%	+16.5%	**+15.4%**
Safety & Security	31%	(3.5)%	(8.9)%	**+9.4%**
Energy	21%	+7.5%	+0.3%	**+17.1%**
Aerospace	6%	+16.7%	+14.2%	**+10.1%**
Smiths Group	**100%**	**+3.4%**	**+4.1%**	**+13.5%**

We delivered strong growth across all our end markets. Our largest market, General Industrial, which accounts for 42% of Group revenue, grew +15.4% organically in the first half. This was driven by John Crane's products in sectors such as life sciences, pulp & paper and chemical processing, and strong demand for Flex-Tek's construction products, although, as expected, this market has begun to slow during the second half. Safety & Security, which includes Smiths Detection's portfolio and Smiths Interconnect's defence products, grew over 9% in H1. Energy was our fastest-growing end market at +17.1%, with strong demand for both John Crane's original equipment ("OE") and aftermarket. Aerospace, which includes Smiths Interconnect and Flex-Tek products, grew +10.1%.

At the start of the fiscal year, we introduced a new operating model for Smiths China, empowering the local team to move more nimbly to support fast-changing customer needs. Initial results of this new structure are encouraging, as results were strong in the period.

Our second lever for faster growth is **improving new product development and commercialisation**. During HY2023, we generated an incremental 200bps of growth from high impact new products including Smith Detection's next generation smart tray return system, John Crane's next generation diamond coating product offering for high-speed and high-heat applications, and Flex-Tek's novel flexible air management system. Gross Vitality, which measures the proportion of revenues coming from products launched in the last five years, increased to 29.5% (HY2022: 28.6%), demonstrating our successful commercialisation of new products.

As an industrial technology leader, new products are our lifeblood. In HY2023 we increased R&D investment by 13.5%, to support both current and future growth We invested £59m in R&D (HY2022: £52m), of which £41m (HY2022: £41m) was an income statement charge, £8m was capitalised (HY2022: £5m), and £10m (HY2022: £6m) was funded by customers.

Customer demand remains strong across most of our end markets. To service this demand, as well as to support new product launches, we invested £36m in capex in the first half (HY2022: £31m) representing 1.4x depreciation and amortisation (HY2022: 1.3x).

Our third growth lever is **building out priority adjacencies**. Each of our four businesses is executing strategies to expand growth beyond their existing core market positions and ensure we capitalise on the long-term megatrends in our markets of energy transition and sustainability, increasing security needs and enhanced connectivity. Examples in HY2023 include John Crane's growing presence in hydrogen and carbon capture markets, with over 40 active projects, and Smiths Detection's growth in its Other Security Systems segment, up +22.9% in the period supported by some notable wins in ports & borders and parcel delivery markets.

Our fourth growth lever is using **disciplined M&A** to augment our organic growth focus. In January, Smiths Interconnect acquired Plastronics, a leading supplier of burn-in test sockets and patented spring probe contacts, extending our reach into an attractive Smiths Interconnect adjacency. We are benefitting from Plastronics' attractive position in Artificial Intelligence, data centres and automotive end markets, and expanding Plastronics' sales globally by leveraging Smiths Interconnect's strong presence in Asia.

EXECUTION

Stronger execution is our second key priority.

In HY2023, headline operating profit grew +12.7% (+£27m) on an organic basis, and +27.4% (+£52m) on a reported basis to £241m (HY2022: £189m).

£m	HY2022	Foreign exchange	**Organic movement**	**HY2023**
Headline operating profit	189	25	**27**	**241**
Headline operating profit margin	15.9%			**16.1%**

Headline operating profit benefited from strong operating leverage in John Crane where orderbook conversion to revenue increased, driving its +24.6% profit growth and +9.0% profit growth in Flex-Tek. Smiths Detection delivered profit growth albeit at a lower margin primarily due to mix, with a very strong increase in OE sales. Smiths Interconnect's profit was down slightly against a strong comparable period last year.

Group headline operating profit margin was 16.1%, up from 15.9% in HY2022. This reflects increased volume, positive pricing more than offsetting cost inflation, and a growing contribution from SES projects. These positive effects were partially offset by continued investment in growth, ongoing supply chain challenges, and the mix effect of particularly strong OE growth.

Headline EPS grew +52.1%, driven by headline operating profit reported growth (+30.7%), our ongoing share buyback programme (+15.0%) and a reduction in our effective headline tax rate (+4.6%). The headline tax charge for HY2023 of £58m (HY2022: £48m) represents an improved effective rate of 26% (HY2022: 28%).

ROCE increased +120bps to 15.2% (HY2022: 14.0%), as the higher profitability of the Group more than offset the increase in working capital in the half. For further detail of this calculation, please refer to note 19 of the financial statements.

Our operating cash conversion was 63% in the first half (HY2022: 93%). Headline operating cash-flow[3] was £151m (HY2022: £167m). Free cash-flow[3] generation was £46m (HY2022: £91m) or 19% of headline operating profit (HY2022: 48%). Smiths has a strong track record of over 100% cash conversion. The reduced half year cash conversion was principally driven by inventory investments to support record first half growth and secure supply to underpin the Group's future growth. Two of the fastest growing business in the half were Smiths Detection and John Crane, which accounted for over 85% of the Group's working capital outflow. This investment ensured we could meet the strong customer demand and underpin the businesses' large orderbooks going in to the second half. To address the Group's temporarily elevated working capital, targeted plans and SES projects focused on reducing inventory are underway.

We continue to make good progress embedding SES throughout our organisation. There are currently 50 Black Belt projects underway. Projects completed in the first half generated £5m of incremental operating profit. With the number of projects scaling across Smiths, we expect SES impact to increase in the second half, bringing the full year contribution to £12m, or £25m on an annualised run-rate basis. In addition to this, SES will generate annualised cash benefit of £20m, supporting operating cash conversion improvement moving forward.

As communicated at our FY2022 results, we are implementing a number of savings projects across the Group. These projects are progressing as anticipated with a £7m benefit in the first half. We continue to expect annualised benefit of £25-30m, with approximately half of that benefit coming in FY2023. In John Crane, we are simplifying our organisation to better serve customers and maximise growth opportunities. In Smiths Detection, we are improving efficiency to strengthen operating leverage as growth accelerates.

In HY2023 we charged £8m for these savings projects with a further £27m-£32m expected to be charged in the second half. These charges are included as non-headline items.

PEOPLE

Inspiring and empowering our people is our third key priority.

The health and safety of our employees is our number one people priority, building on our world-class safety record. In the first half of the year, our recordable incident rate improved to 0.4 (HY2022: 0.5) as a result of a multi-faceted safety programme underway across Smiths.

At the end of FY2022, we launched our Smiths Leadership Behaviours to define our expectations for an inclusive and high-performance culture. We continued the rollout of these seven behaviours in the first half, with Smiths Culture Champions leading workshops to reinforce and embed these leadership behaviours throughout our organisation, with over 5,000 hours of activities completed.

Along with our Smiths Leadership Behaviours, talent development is a key priority within our People plan, as talent development is foundational to achieving our ambitious business goals. We are focused on growing and promoting talent from within with 80% of open roles now filled internally, versus 40% in the past. We have relaunched the Accelerate Leadership Development programme, a group-wide training initiative focused on building more effective leaders; introduced an Executive Committee mentoring programme to support the career development of high potential leaders; and continued to develop our Early Career programme, which includes a number of engineering apprenticeship programmes.

Diversity, equity, and inclusion also plays a central role. One component of this is increasing the proportion of women in leadership roles. Women represent 40% of the Smiths Board and 33% of our Executive Committee, but only 24% of senior leadership. We are investing in initiatives across the organisation to support and advance the careers of women at Smiths as we strive for an even more inclusive culture.

OUR ESG APPROACH

Environment, Social and Governance ("ESG") performance is central to our Purpose, and we are committed to extending our sustainability leadership.

During HY2023 we published our inaugural Sustainability Report, Sustainability at Smiths, which describes how we are embracing and prioritising ESG performance at Smiths to deliver on our Purpose and create long-term, sustainable value for all our stakeholders. Our ESG strategy is fully integrated into the Smiths Value Engine with priorities centred on growth, execution and people.

Growth

Through our significant technological capabilities and our strong customer relationships, across the Group we are helping provide sustainable solutions for our customers to enable them to meet their own environmental targets. An example of this is our partnership with Midrex Technologies Inc ("Midrex") in Flex-Tek to develop a heating solution to be used in the Direct Reduction of Iron ("DRI") process to enable the production of commercial scale "green steel." The Midrex process replaces fossil fuels in traditional DRI steel production with hydrogen. In John Crane we are well placed to help our customers in their energy transition journey, from methane abatement through to the generation of renewable energy. John Crane is currently engaged in over 40 carbon capture utilisation and storage ("CCUS") and hydrogen projects worldwide.

Execution

In FY2022, we set and communicated 3 year environmental goals to FY2024 (targets can be found here), which cover reductions in water, waste, packaging, and Greenhouse Gas ("GHG") emissions as well as an increase in the use of renewable electricity. These targets support the delivery of our commitment to Net

Zero GHG Emissions for Scope 1 and 2 by 2040, and for Scope 3 by 2050. The development of Science-Based Targets (SBTs) is also underway.

During the first half we continued to make good progress against our environmental targets, tracking ahead of our 3-year targets for water, waste, electricity consumed from renewable sources and GHG emissions reduction.

People

Our people play a pivotal role in the success of our ESG strategy, from the engineering capabilities required to design new energy transition products to our robust governance structure. During the first half we established sustainability leaders in each division to help accelerate our plans and deliver against our targets.

To further align our ESG commitments with our priorities, we have included ESG metrics (GHG reductions and energy usage) in both our long-term and our annual incentive compensation programmes across the Group.

CAPITAL ALLOCATION

With our strong technology, market positions, and financial framework, our highest capital priority continues to be organic growth. Accretive M&A, either to strengthen core positions or to accelerate penetration of priority adjacencies comes second. Thirdly, we have a strong track record of returning surplus capital to shareholders, as evidenced by the £241m returned in the first half, on top of the £661m returned in FY22.

Organic investment

In HY2023 we invested £36m in capex projects, including £8m in R&D investment on programmes such as next generation hold and cabin baggage screening and further advancements in our defence portfolio. A further £41m in R&D was charged to the income statement, supporting new product development.

M&A

In HY2023, Smiths Interconnect acquired Plastronics, a leading supplier of burn-in test sockets and patented spring probe contacts.

The acquisition supports our strategy to make complementary inorganic investments which will help accelerate our presence in adjacent markets or expand our product offering. We have an active acquisition pipeline and disciplined M&A approach across the Group.

Shareholder returns

Through the first half we continued to repurchase shares under the £742m share buyback programme which we initiated in November 2021, in connection with our commitment to return the majority of cash proceeds from the disposal of Smiths Medical to shareholders. As at 22 March 2023, we had returned £657m, and have a further £85m remaining under the repurchase authorisation.

In line with our progressive dividend policy and plan to rebuild dividend cover after the sale of Smiths Medical, the Board is declaring an interim dividend of 12.9p, a year-on-year increase of +5% (HY2022: 12.3p). The interim dividend will be paid on 17 May 2023 to shareholders on the register at close of business on 11 April 2023. Our dividend policy aims to increase dividends in line with growth in earnings and cash-flow with the objective of maintaining minimum dividend cover of around 2 times. This policy enables us to retain sufficient cash-flow to finance investment in growth and meet our financial obligations.

In setting the level of dividend payments, the Board considers prevailing economic conditions and future investment plans.

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 25 April 2023 ("the Election Date.") Elections received after the Election Date will apply to dividends paid after 17 May 2023. Purchases under the DRIP are made on, or as soon as practicable after, the dividend payment date and at prevailing market prices.

Net debt

Net debt[3] at 31 January 2023 was £429m (FY2022: £150m), an increase of £279m as we continued to execute our share buyback and paid the final FY2022 dividend. Net debt to headline EBITDA[3] in HY2023 was 0.8x (FY2022: 0.3x).

Borrowings as at 31 January 2023 were £1,208m (FY2022: £1,166m), which comprises two euro denominated bonds, one of which (€600m) we expect to repay when it is due in April 2023. The other (€650m) bond matures in 2027. There are no financial covenants associated with these borrowings. Cash and cash equivalents as at 31 January 2023 were £795m (FY2022: £1,056m).

A $800m (c.£650m 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 £1.4bn at the end of the period.

STATUTORY RESULTS

Income Statement

The £54m difference between headline operating profit of £241m and statutory operating profit of £187m is non-headline items as defined in note 3 of the financial statements. The largest components include amortisation of acquired intangible assets of £26m, past service costs for retirement benefit equalisation, scheme administration costs and pension settlement losses of £12m, asbestos litigation in John Crane, Inc. of £10m, and restructuring costs of £8m. Statutory operating profit of £187m was £30m higher than last year (HY2022: £157m), reflecting the increase in headline operating profit.

Statutory finance costs were £(20)m (HY2022: £3m), the increase relates to the prior year £22m foreign exchange gain on an intercompany loan with Smiths Medical which was settled on disposal in January 2022; the matching credit in discontinued operations netted out to zero in total Group earnings.

Total Group profit after tax and EPS

Statutory profit after tax for the total Group decreased to £109m (HY2022: £1,123m) with the prior year including the profit on sale of Smiths Medical. Statutory basic EPS was 30.6p (HY2022: 283.9p).

Statutory Cash-flow

Statutory net cash inflow from operating activities for the total Group was £100m (HY2022: £182m). See note 16 to the financial statements for a reconciliation of headline operating cash-flow to statutory cash-flow.

Pensions

Included within free cash-flow is £3m of pension contributions, (HY2022: £6m). These contributions relate to unfunded, overseas schemes and healthcare arrangements.

It is not anticipated that any further contributions will be made to the TI Group Pension Scheme ("TIGPS"), the liabilities of which have now been insured via a series of buy-in annuities. Smiths and the TIGPS Trustee are working toward final buy-out of the scheme in order to deliver certainty for the Scheme's 21,000 members and remove future risk for Smiths.

The second major pension scheme, Smiths Industries Pension Scheme ("SIPS") is estimated to be in surplus on the Technical Provisions funding basis, and no cash contributions are currently being made. The Group and the SIPS Trustee continue to work together to progress towards the long-term funding target of full buy-out funding.

The two main UK pension schemes and the US pension plan 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 2023, over 60% of the UK liabilities had been de-risked through the purchase of annuities from third party insurers.

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 2023 (6 months)	31 Jan 2022 (6 months)	31 Jan 2023	31 Jan 2022
USD	1.18	1.36	1.23	1.34
EUR	1.15	1.18	1.13	1.20

OUTLOOK

The Group is raising the guidance for FY2023 again. We now expect at least 8% organic revenue growth for FY2023, with moderate margin improvement.

Tailwinds	• Strong orderbook and trading trends support upgraded guidance • New product strategy working well; pipeline strong and recent launches ramping well • Impact of SES visible in results; will continue to ramp in H2 and beyond • Savings projects improving speed and operating leverage
Headwinds	• Stronger topline comparators and mix impact on margin • Geopolitical and macro uncertainty remains high • Supply chain challenges are stabilising, but still having effects • Softness in some end markets in Flex-Tek and Smiths Interconnect (~20% of Smiths Group)

Business review

John Crane

John Crane is a leading provider of mission-critical engineered solutions, improving our customers' reliability and sustainability in process industries. 61% of revenue is derived from the energy sector (downstream and midstream oil & gas and power generation, including renewable and sustainable energy sources.) 39% is from other process industries including chemicals, life sciences, mining, water treatment, and pulp & paper. 70% of John Crane revenue is from aftermarket sales. John Crane represents 35% of Group revenue.

	HY2023 £m	HY2022 £m	Reported growth	**Organic growth**
Revenue	**519**	416	+24.6%	**+14.6%**
Original Equipment	83	69	+22.0%	+13.3%
Aftermarket	233	179	+29.3%	+18.5%
Energy	**316**	248	+27.3%	**+17.1%**
Original Equipment	73	59	+23.3%	+14.1%
Aftermarket	130	109	+19.1%	+9.2%
General Industrial	**203**	168	+20.6%	**+10.9%**
Headline operating profit	**114**	83	+36.6%	**+24.6%**
Headline operating profit margin	**22.0%**	20.0%	+200bps	**+190bps**
Statutory operating profit	**99**	81		
Return on capital employed	**21.7%**	20.2%		
R&D cash costs as % of sales	**2.0%**	2.9%		

Revenue

£m	HY2022 reported	Foreign exchange	**Organic movement**	**HY2023 reported**
Revenue	416	36	**67**	**519**

John Crane's strong market position, global service network, and trusted customer relationships underpin its strong first half performance. Organic revenue was up +14.6%, with growth across all segments as the conversion of orderbook to revenue increased. On a reported basis, revenue was up +24.6%, with a £36m favourable foreign exchange impact.

Activity levels remain high across all segments, with +14.2% order growth and a record orderbook going into the second half.

For the business overall, OE revenue increased +13.7%, and aftermarket revenue increased +15.0% on an organic basis.

In John Crane's energy segment, customer demand for both OE and aftermarket is strong, driven by the increasing demand for energy, along with decarbonisation and the transition to clean energy sources. Revenue from OE sales increased +13.3% on an organic basis. John Crane's large installed base and leading service offering positions it well to meet the strong demand for aftermarket repairs, maintenance and upgrades, and aftermarket revenue grew +18.5% on an organic basis.

John Crane's OE sales for industrial applications grew +14.1% on an organic basis, driven by strong demand in sectors such as life sciences, chemical processing and pulp & paper. Aftermarket revenue increased +9.2% with a continued strong orderbook.

Across both its market segments, John Crane customers are requiring systems to be more reliable and energy efficient, interconnected and digitally enabled, and use diverse low-carbon energy sources. These trends benefit John Crane as they require significant investment in new infrastructure and retrofits to existing infrastructure, as well as new technology to reduce cost and accelerate the deployment of cleaner energy.

John Crane is well positioned to support customers through the energy transition. John Crane is working closely with customers and stakeholders to accelerate innovation across several decarbonisation themes to reduce methane and other GHG emissions, increase asset efficiency, and enable rapid scaling of low-carbon hydrogen, along with carbon capture, utilisation & storage. Recent wins include a large CCUS expansion project in Wyoming, USA, a major blue hydrogen project in Alberta, Canada and multiple green hydrogen projects in Europe.

Operating profit

£m	HY2022 reported	Foreign exchange	**Organic movement**	**HY2023 reported**
Headline operating profit	83	8	**23**	**114**
Headline operating profit margin	20.0%			**22.0%**

Headline operating profit of £114m increased +24.6% on an organic basis, driven by increased volumes, pricing actions more than offsetting cost inflation, and management of ongoing supply chain disruption. As a result, margin expanded 200bps to 22.0% (HY2022: 20.0%).

Headline operating profit increased +36.6% on a reported basis, with +£8m of favourable foreign exchange translation. The difference between statutory and headline operating profit includes the net cost in relation to the provision for John Crane, Inc. asbestos litigation and restructuring costs.

ROCE

ROCE was 21.7%, up 150bps, driven by increased profitability.

R&D

Cash R&D expenditure was 2.0% of sales (HY2022: 2.9%), with £11m spent on R&D in the first half. John Crane's innovation is primarily focused on enhancing efficiency, performance and sustainability by using materials science advancements to reduce friction in high duty wet seals, increase maximum rotating speed required in next generation hydrogen compressors and creating state-of-the-art filtration solutions that remove liquids and vapours while minimising pressure losses. John Crane is also developing advanced, digital capabilities that enable operators to accurately predict equipment life, increase asset availability and lower overall cost.

John Crane sealing solutions play a significant role in helping our customers in their sustainability journeys through reducing leaks. Examples include a seal for demanding hydrocarbon pipelines with a unique, patented technology that significantly extends mean time to repair, reducing maintenance, improving efficiency and protecting the environment from potentially harmful leaks. John Crane also launched the Seal Gas Recovery System, a technical solution that recovers the seal leakage and diverts the gas stream back into the process flow to be used in other applications, reducing GHG emissions and cutting valuable product losses.

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. 51% of Smiths Detection's sales are derived from aftermarket service. Smiths Detection represents 26% of Group revenue.

	HY2023 £m	HY2022 £m	Reported growth	**Organic growth**
Revenue	**390**	313	+24.8%	**+14.0%**
Original Equipment	110	93	+19.2%	+10.3%
Aftermarket	153	126	+21.4%	+10.3%
Aviation	**263**	219	+20.5%	**+10.3%**
Original Equipment	79	52	+52.5%	+39.2%
Aftermarket	48	42	+13.1%	+2.9%
Other Security Systems	**127**	94	+34.8%	**+22.9%**
Headline operating profit	**41**	36	+16.3%	**+4.5%**
Headline operating profit margin	**10.5%**	11.5%	(100)bps	**(110)bps**
Statutory operating profit	**24**	25		
Return on capital employed	**7.2%**	9.2%		
R&D cash costs as % of sales	**8.4%**	9.4%		

Revenue

£m	HY2022 reported	Foreign exchange	**Organic movement**	**HY2023 Reported**
Revenue	313	29	**48**	**390**

Smiths Detection drove accelerated growth across the business as it delivers against its strong multi-year orderbook, with organic revenue growth of +14.0% (£48m) in HY2023. On a reported basis this increased to +24.8% with +£29m of favourable FX translation.

For the business overall, OE revenue increased +20.7%, and aftermarket revenue increased +8.4% on an organic basis.

Revenue from the Aviation market accounted for 68% of HY2023 revenues and grew +10.3% on an organic basis, balanced between both OE and aftermarket as the market continues to recover post the COVID pandemic. The growth in OE is supported by delivery of Smiths Detection's range of 3D Computed Tomography ("CT") machines combined with continued maintenance and software upgrades in aftermarket. Tender activity in Aviation continues to be strong as airports seek to upgrade their security systems to CT technology, in some cases driven by mandated regulations. Recent key wins include checkpoint screening systems for New Zealand, Germany, UK and India and air cargo wins with DHL Australia.

Other Security Systems ("OSS") accelerated growth in HY2023, delivering +22.9% increase on an organic basis. OE growth was particularly strong, up +39.2% with deliveries across urban security settings, defence and ports & borders. Building out the OSS segment is a key strategic priority for Smiths Detection and H1 growth in the segment demonstrates the progress made. Key wins in the first half include ports & borders screening in Japan and the US, provision of X-ray scanners for the G20 summit in Indonesia, and provision of lightweight chemical detectors used in defence settings.

Operating profit

£m	HY2022 reported	Foreign exchange	Organic movement	HY2023 reported
Headline operating profit	36	4	**1**	**41**
Headline operating profit margin	11.5%			**10.5%**

Smiths Detection's headline operating profit increased +4.5% on an organic basis, primarily driven by increased volumes. Headline operating profit of £41m was up +16.3% on a reported basis, including +£4m favourable foreign exchange translation.

Headline operating profit margin was 10.5%, down (100)bps. OE deliveries typically have lower margin than aftermarket services, and this had a 180bps mix impact year on year as a result of the +20.7% growth in OE. Progress was made on cost reduction and SES impact is building.

The difference between statutory and headline operating profit primarily reflects amortisation of acquired intangibles and restructuring costs.

ROCE

ROCE decreased 200bps to 7.2% driven by higher working capital investment to support sustainable growth.

R&D

Cash R&D expenditure was 8.4% of sales at £33m, up +13.8% on prior year (HY2022: £29m). This includes an increase in customer funded projects to £9m (HY2022: £6m).

Smiths Detection continued to invest in the development of next generation detection devices for the defence market, new algorithms to improve the detection of dangerous goods, and digital solutions to keep people and infrastructure safer. Certain programmes are co-funded by strategic customers seeking next-generation solutions to security challenges. During HY2023, we launched a next generation dual-view X-ray scanner allowing increased efficiency with a more compact footprint, and further extensions of our automated detection algorithm, iCMORE, to enable detection of prohibited items.

Flex-Tek

Flex-Tek provides innovative solutions to heat and move fluids and gases for aerospace and industrial applications that support energy efficiency and improved air quality. 83% of Flex-Tek's revenue is derived from Industrials and 17% from the Aerospace sector. Flex-Tek represents 26% of Group revenue.

	HY2023 £m	HY2022 £m	Reported growth	Organic Growth
Revenue	**395**	297	+33.2%	**+17.0%**
General Industrials	326	243	+33.9%	+17.5%
Aerospace	69	54	+29.8%	+14.8%
Headline operating profit	**77**	62	+24.9%	**+9.0%**
Headline operating profit margin	**19.5%**	20.9%	(140)bps	**(150)bps**
Statutory operating profit	**64**	51		
Return on capital employed	**26.6%**	24.1%		
R&D cash costs as % of sales	**0.4%**	0.4%		

Revenue

£m	HY2022 reported	Foreign exchange	Organic movement	HY2023 reported
Revenue	297	41	**57**	**395**

Flex-Tek continued to deliver strong revenue growth in HY2023 with organic revenue of +17.0%. Revenue grew +33.2% on a reported basis, including +£41m favourable foreign exchange translation.

Organic revenue from Flex-Tek's Industrial segment was up +17.5%. Growth was led by strong demand for construction products particularly in heating, ventilation and air conditioning ("HVAC") applications, supported by further capacity expansions. Demand also remained strong for industrial heating products. As expected, Flex-Tek has begun to see a slower rate of growth for its construction products in the second half.

During the first half, Flex-Tek continued to execute its growth strategy, ramping up production at a new facility in Houston, Texas, supporting the geographic expansion of our HVAC product offering. Flex-Tek is also preparing to add capacity for its heating solution that will be used as part of the DRI process enabling the production of commercial scale "green steel." Flex-Tek received its first purchase order for the DRI solution, which is being developed in partnership with Midrex, and which is expected to generate revenues from FY24 onwards.

Organic revenue from Flex-Tek's Aerospace segment was up +14.8% as the aerospace market benefits from an increasing number of aircraft builds.

Operating profit

£m	HY2022 reported	Foreign exchange	Organic movement	HY2023 Reported
Headline operating profit	62	9	**6**	**77**
Headline operating profit margin	20.9%			**19.5%**

Headline operating profit increased +9.0% on an organic basis, reflecting increased volumes and strong pricing more than offsetting cost inflation. Headline operating profit margin was 19.5%, a decrease of (140)bps as Flex-Tek invested in the start-up costs of the new facility in Houston and marketing costs for our new product platform, Python flexible refrigerant line sets.

Headline operating profit was up +24.9% to £77m on a reported basis, including +£9m favourable foreign exchange translation.

The difference between statutory and headline operating profit is due to amortisation of acquired intangible assets.

ROCE
ROCE increased +250bps to 26.6% reflecting the strong acceleration in profit over the last 12 months.

R&D
Cash R&D expenditure remained broadly consistent at 0.4% of sales (HY2022: 0.4%). R&D is focused on developing new products for the construction market, and an expanded product offering in aerospace.

Smiths Interconnect

Smiths Interconnect designs high performance connectivity solutions for demanding applications in the aerospace and defence, semiconductor test, and industrial end-markets. Smiths Interconnect represents 13% of Group revenue.

	HY2023 £m	HY2022 £m	Reported growth	**Organic Growth**
Revenue	**193**	166	+16.2%	**+3.3%**
Headline operating profit	**32**	28	+12.2%	**(1.7)%**
Headline operating profit margin	**16.6%**	16.9%	(30)bps	**(80)bps**
Statutory operating profit	**30**	28		
Return on capital employed	**15.8%**	12.0%		
R&D cash costs as % of sales	**6.5%**	5.5%		

Revenue

£m	HY2022 reported	Foreign exchange	**Organic movement**	**HY2023 reported**
Revenue	166	21	**6**	**193**

Smiths Interconnect's organic revenue was up +3.3% in H1, an expected moderation from the double-digit growth of the prior year. Revenue increased by +16.2% on a reported basis, with +£21m favourable foreign exchange translation.

Growth in the first half was driven by strong performance in the industrials sector where demand for Smiths Interconnect's connector solutions remained high, in particular for the recently introduced medical cable assembly product. Revenue for semiconductor test sockets continued to grow in HY2023 but demand normalised during the period, with growth slowing in the second half.

Growth in both aerospace and defence related programmes was impacted by phasing of large programmes in the prior year. Commercialisation of new products such as the 28G optical transceivers and newly launched radio-frequency components offering proven high performance in commercial applications will contribute to growth for the full year.

During the first half, Smiths Interconnect acquired Plastronics, a leading supplier of burn-in test sockets and patented spring probe contacts. This is a good example of how we use M&A to accelerate penetration of priority adjacencies. The acquisition of Plastronics strengthens Smiths Interconnect's product portfolio, leveraging Plastronics' attractive positions in Artificial Intelligence, data centres and automotive end markets while expanding Plastronics' geographic reach using Smiths Interconnect's strong presence in Asia.

Operating profit

£m	HY2022 reported	Foreign exchange	**Organic movement**	**HY2023 reported**
Headline operating profit	28	4	**(0)**	**32**
Headline operating profit margin	16.9%			**16.6%**

Headline operating profit decreased (1.7)% on an organic basis as a result of increased investments in R&D to support future growth.

Headline operating profit was up +12.2% to £32m on a reported basis, including £4m favourable FX translation. Headline operating profit margin was 16.6%, down (30)bps on a reported basis.

The difference between statutory and headline operating profit reflects the amortisation of acquired intangibles and the integration costs of the Plastronics acquisition and restructuring costs.

ROCE

ROCE increased +380bps to 15.8%, driven by higher profitability over the last twelve months compared to the prior period.

R&D

Cash R&D expenditure increased to 6.5% of sales (HY2022: 5.5%). R&D is focused on bringing to market new products that improve connectivity and product integrity in demanding operating environments.
Products launched in the first half included the new custom grid array technology reducing overall size, weight, and cost of connectors for medical applications; the next generation of high-speed test solutions for data centres and high-performance computing; and the expanded offering of coaxial coupler components designed for mission critical space and defence applications. The business has an expansive new product pipeline, with a further 10 product introductions planned for the second half.

RISK MANAGEMENT

The Group's principal risks and uncertainties and relevant mitigating activities were set out on pages 46-53 of the FY2022 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.

ORGANIC GROWTH: Failing to achieve organic growth in line with market opportunity, resulting in erosion of shareholder value. Whilst the overall risk level remains unchanged, our divisions continue to manage supply chain, macroeconomic demand shifts and inflationary cost pressures.

ESG: Failure to meet stakeholder expectations on increasing ESG obligations may expose the Group to reputational or financial risk.

TECHNOLOGY: Differentiated products and services are critical to our success. We may be unable to maintain technological differentiation; to meet customers' existing needs or anticipate emerging demand trends; and may face disruptive innovation by a competitor.

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.

BUSINESS CONTINUITY: Our 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, terrorist attacks and disease pandemics.

ECONOMY AND GEOPOLITICS: The world continues to experience volatile macroeconomic conditions. The risk of persistent inflation and the effects of central bank intervention remain unknown. There is a risk of rising labour and material costs, as well as regional recessions which would pressure our revenue growth and profitability. Geopolitical tensions may further impact the free movement of capital, goods, and people and add volatility to our supply chains or constrain our market opportunities.

COMMERCIAL: 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.

PRODUCT QUALITY: The mission-critical nature of many of our products, services and solutions makes the potential consequences of failure more serious than for some other businesses. In the ordinary course of business, we are potentially subject to material product liability claims and lawsuits, including potential class actions, from customers or third parties.

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 cyber criminals. Digitalisation and increased interconnectivity of our products intensify the risk and the number of areas under potential attack.

LEGAL AND COMPLIANCE: We have more than 14,700 colleagues in more than 50 countries. Individuals may not all behave in accordance with the Group's Values and in accordance with ethical and legal requirements. We operate within increasingly complex legal regimes, often in highly regulated markets and with governments, customers and suppliers requiring strict adherence to laws. We may fail to deliver contracted products and services or fail in our contractual execution due to delays or breaches by our suppliers or other counterparties.

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
Chief Executive

Clare Scherrer
Chief Financial Officer

23 March 2023

Independent review report to Smiths Group plc

Conclusion
We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2023 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 2023 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").

Basis for conclusion
We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity ("ISRE (UK) 2410") issued 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.

Conclusions relating to going concern
Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern, and the above conclusions are not a guarantee that the group will continue in operation.

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 annual financial statements of the group are 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.

In preparing the condensed set of financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

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. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

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.

Mike Barradell

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

23 March 2023

Consolidated income statement (unaudited)

	Notes	Six months ended 31 January 2023 Headline £m	Six months ended 31 January 2023 Non-headline (note 3) £m	Six months ended 31 January 2023 Total £m	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
CONTINUING OPERATIONS							
Revenue	2	1,497	–	1,497	1,192	–	1,192
Operating costs	2	(1,256)	(54)	(1,310)	(1,003)	(32)	(1,035)
Operating profit/(loss)		**241**	**(54)**	**187**	**189**	**(32)**	**157**
Interest receivable		21	–	21	5	–	5
Interest payable		(38)	(2)	(40)	(24)	–	(24)
Other financing gains/(losses)		–	(5)	(5)	–	19	19
Other finance income – retirement benefits		–	4	4	–	3	3
Finance (costs)/income		(17)	(3)	(20)	(19)	22	3
Profit/(loss) before taxation		**224**	**(57)**	**167**	**170**	**(10)**	**160**
Taxation	5	(58)	(6)	(64)	(48)	4	(44)
Profit/(loss) for the period from continuing operations		**166**	**(63)**	**103**	**122**	**(6)**	**116**
DISCONTINUED OPERATIONS							
Profit for the period from discontinued operations	3	–	6	6	49	958	1,007
PROFIT/(LOSS) FOR THE PERIOD		**166**	**(57)**	**109**	**171**	**952**	**1,123**
Attributable to							
Smiths Group shareholders – continuing operations		166	(63)	103	121	(6)	115
Smiths Group shareholders – discontinued operations		–	6	6	49	958	1,007
Non-controlling interests		–	–	–	1	–	1
		166	**(57)**	**109**	**171**	**952**	**1,123**
Earnings per share	4						
Basic				30.6p			283.9p
Basic – continuing				28.9p			29.1p
Diluted				30.5p			283.7p
Diluted – continuing				28.9p			29.1p
Dividends per share (declared)	14			**12.9p**			**12.3p**

Consolidated statement of comprehensive income (unaudited)

	Notes	Six months ended 31 January 2023 £m	Six months ended 31 January 2022 £m
Profit for the period		**109**	**1,123**
Other comprehensive income (OCI)			
OCI which will not be reclassified to the income statement:			
Re-measurement of post-retirement benefits assets and obligations		(109)	18
Taxation on post-retirement benefits movements		14	(5)
Fair value movements on financial assets at fair value through OCI		27	(29)
		(68)	(16)
OCI which will be reclassified and reclassifications:			
Fair value gains and reclassification adjustments:			
– deferred in the period on cash-flow and net investment hedges		(13)	(24)
– reclassified to income statement on cash-flow hedges		3	5
		(10)	(19)
Foreign exchange movements net of recycling:			
Exchange gains on translation of foreign operations		2	72
Exchange gains recycled to the income statement on disposal of business		–	(196)
		2	(124)
Total other comprehensive expenditure for the period, net of taxation		**(76)**	**(159)**
Total comprehensive income		**33**	**964**
Attributable to			
Smiths Group shareholders		33	963
Non-controlling interests		–	1
		33	**964**

Total comprehensive income attributable to Smiths Group shareholders arising from		
Continuing operations	27	161
Discontinued operations	6	803
	33	**964**

Consolidated balance sheet (unaudited)

	Notes	31 January 2023 £m	31 July 2022 £m
Non-current assets			
Intangible assets	7	1,594	1,588
Property, plant and equipment	8	252	243
Right of use assets	9	101	106
Financial assets – other investments	10	427	395
Retirement benefit assets	6	193	309
Deferred tax assets		94	95
Trade and other receivables		76	69
		2,737	**2,805**
Current assets			
Inventories		690	570
Current tax receivable		50	50
Trade and other receivables		711	738
Cash and cash equivalents	11	795	1,056
Financial derivatives	11	17	4
		2,263	**2,418**
Total assets		**5,000**	**5,223**
Current liabilities			
Financial liabilities:			
– short-term borrowings	11	(574)	(538)
– financial derivatives	11	(2)	(27)
Provisions	13	(69)	(88)
Trade and other payables		(689)	(682)
Current tax payable		(72)	(64)
		(1,406)	**(1,399)**
Non-current liabilities			
Financial liabilities:			
– long-term borrowings	11	(634)	(628)
– financial derivatives	11	(20)	(20)
Provisions	13	(237)	(247)
Retirement benefit obligations	6	(118)	(115)
Corporation tax payable		(3)	(3)
Deferred tax liabilities		(44)	(44)
Trade and other payables		(41)	(46)
		(1,097)	**(1,103)**
Total liabilities		**(2,503)**	**(2,502)**
Net assets		**2,497**	**2,721**
Shareholders' equity			
Share capital	18	133	136
Share premium account	18	365	365
Capital redemption reserve		22	19
Merger reserve		235	235
Cumulative translation adjustments		489	487
Retained earnings		1,443	1,659
Hedge reserve		(212)	(202)
Total shareholders' equity		**2,475**	**2,699**
Non-controlling interest equity		22	22
Total equity		**2,497**	**2,721**

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 2022		501	254	487	1,659	(202)	2,699	22	2,721
Profit for the period		–	–	–	109	–	109	–	109
Other comprehensive income:									
– foreign exchange movements net of recycling		–	–	2	–	–	2	–	2
– re-measurement of post-retirement benefits and related tax		–	–	–	(95)	–	(95)	–	(95)
– fair value gains/(losses) and related tax		–	–	–	27	(10)	17	–	17
Total comprehensive income for the period		**–**	**–**	**2**	**41**	**(10)**	**33**	**–**	**33**
Transactions relating to ownership interests									
Purchase of shares by Employee Benefit Trust		–	–	–	(24)	–	(24)	–	(24)
Share buybacks	18	(3)	3	–	(144)	–	(144)	–	(144)
Dividends:									
– equity shareholders	14	–	–	–	(97)	–	(97)	–	(97)
Share-based payment		–	–	–	8	–	8	–	8
At 31 January 2023		**498**	**257**	**489**	**1,443**	**(212)**	**2,475**	**22**	**2,497**

	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		(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**

Consolidated cash-flow statement (unaudited)

	Notes	Six months ended 31 January 2023 £m	Six months ended 31 January 2022 £m
Net cash inflow from operating activities	16	**100**	**182**
Cash-flows from investing activities			
Expenditure on capitalised development		(7)	(14)
Expenditure on other intangible assets		(3)	(4)
Purchase of property, plant and equipment		(26)	(30)
Disposals of property, plant and equipment		–	1
Investment in financial assets		–	(4)
Acquisition of businesses		(22)	–
(Payments)/proceeds on disposal of subsidiaries, net of cash disposed		(7)	1,348
Net cash-flow used in investing activities		**(65)**	**1,297**
Cash-flows from financing activities			
Proceeds from issue of new equity shares		–	2
Share buybacks	18	(144)	(103)
Purchase of shares by Employee Benefit Trust		(24)	(16)
Settlement of share awards in cash		–	(1)
Dividends paid to equity shareholders and non-controlling interests		(97)	(103)
Cash inflow/(outflow) from matured derivative financial instruments		(10)	4
Lease payments		(18)	(19)
Net cash-flow used in financing activities		**(293)**	**(236)**
(Decrease)/increase in cash and cash equivalents		(258)	1,243
Cash and cash equivalents at beginning of the period		1,055	405
Movement in cash held in disposal group		–	48
Exchange differences		(2)	14
Cash and cash equivalents at end of the period		**795**	**1,710**
Cash and cash equivalents at end of the period comprise:			
– cash at bank and in hand		197	208
– short-term deposits		598	1,502
		795	**1,710**

Notes to the condensed interim financial statements (unaudited)

1 Basis of preparation

The financial information for the period ended 31 January 2023 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 2022 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 2023 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.

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 2022, which has been prepared in accordance with UK-adopted International Accounting Standards.

The interim financial statements are prepared on a going concern basis. The Directors have assessed the principal risks discussed on page 19. 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 23 March 2023.

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, Flex-Tek, Smiths Detection 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 that 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.

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

Segment trading performance

						Six months ended 31 January 2023
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate costs £m	Total £m
Revenue	519	390	395	193	–	1,497
Divisional headline operating profit	114	41	77	32	–	264
Corporate headline operating costs	–	–	–	–	(23)	(23)
Headline operating profit/(loss)	**114**	**41**	**77**	**32**	**(23)**	**241**
Items excluded from headline measures (note 3)	(15)	(17)	(13)	(2)	(7)	(54)
Operating profit/(loss) for the period	**99**	**24**	**64**	**30**	**(30)**	**187**
Headline operating margin	22.0%	10.5%	19.5%	16.6%		16.1%

						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%

Segment assets and liabilities

Segment assets

						31 January 2023
	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	168	128	85	62	431	874
Inventory, trade and other receivables	459	587	241	172	18	1,477
Segment assets	**627**	**715**	**326**	**234**	**449**	**2,351**

						31 July 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	167	127	84	54	399	831
Inventory, trade and other receivables	429	524	244	167	13	1,377
Segment assets	**596**	**651**	**328**	**221**	**412**	**2,208**

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

Segment liabilities

	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
						31 January 2023
Divisional liabilities	(144)	(356)	(103)	(74)	–	(677)
Corporate and non-headline liabilities					(359)	(359)
Segment liabilities	**(144)**	**(356)**	**(103)**	**(74)**	**(359)**	**(1,036)**

	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
						31 July 2022
Divisional liabilities	(155)	(347)	(91)	(85)	–	(678)
Corporate and non-headline liabilities	–	–	–	–	(385)	(385)
Segment liabilities	**(155)**	**(347)**	**(91)**	**(85)**	**(385)**	**(1,063)**

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 2023 £m	31 July 2022 £m	31 January 2023 £m	31 July 2022 £m
Segment assets and liabilities	**2,351**	**2,208**	**(1,036)**	**(1,063)**
Goodwill and acquired intangibles	1,500	1,501	–	–
Derivatives	17	4	(22)	(47)
Current and deferred tax	144	145	(119)	(111)
Retirement benefit assets and obligations	193	309	(118)	(115)
Cash and borrowings	795	1,056	(1,208)	(1,166)
Statutory assets and liabilities	**5,000**	**5,223**	**(2,503)**	**(2,502)**

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 2022: £478m), 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:

	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Total £m
					31 January 2023
Average divisional capital employed	1,006	1,088	558	435	3,087
Average corporate capital employed					(4)
Average capital employed					**3,083**

	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Total £m
					31 January 2022
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

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 2023	156	363	519
Revenue six months ended 31 January 2022	128	288	416

Smiths Detection	Aviation £m	Other security systems £m	Total £m
Revenue six months ended 31 January 2023	263	127	390
Revenue six months ended 31 January 2022	219	94	313

Flex-Tek	Aerospace £m	Industrials £m	Total £m
Revenue six months ended 31 January 2023	69	326	395
Revenue six months ended 31 January 2022	54	243	297

Smiths Interconnect	Components, Connectors & Subsystems £m
Revenue six months ended 31 January 2023	193
Revenue six months ended 31 January 2022	166

Divisional revenue is analysed by the Smiths Group key global markets as follows:

John Crane	General Industrial £m	Safety & Security £m	Energy £m	Aerospace £m	Total £m
Revenue six months ended 31 January 2023	203	–	316	–	519
Revenue six months ended 31 January 2022	168	–	248	–	416
Smiths Detection					
Revenue six months ended 31 January 2023	–	390	–	–	390
Revenue six months ended 31 January 2022	–	313	–	–	313
Flex-Tek					
Revenue six months ended 31 January 2023	326	–	–	69	395
Revenue six months ended 31 January 2022	243	–	–	54	297
Smiths Interconnect					
Revenue six months ended 31 January 2023	95	71	–	27	193
Revenue six months ended 31 January 2022	72	70	–	24	166
Total					
Revenue six months ended 31 January 2023	624	461	316	96	1,497
Revenue six months ended 31 January 2022	483	383	248	78	1,192

The Group's statutory revenue is analysed as follows:

	Six months ended 31 January 2023 £m	Six months ended 31 January 2022 £m
Sale of goods recognised at a point in time	1,113	859
Sale of goods recognised over time	31	54
Services recognised over time	353	279
Revenue	**1,497**	**1,192**

Operating costs

Headline operating costs are analysed as follows:

	Six months ended 31 January 2023			Six months ended 31 January 2022		
	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	945	–	945	736	–	736
Selling costs	112	–	112	95	–	95
Administrative expenses	199	54	253	172	32	204
Operating costs	**1,256**	**54**	**1,310**	**1,003**	**32**	**1,035**

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 2023 £m	Six months ended 31 January 2022 £m
Post-transaction gains/(losses) and fair value adjustment changes		
Fair value gain on contingent consideration	5	–
Unwind of acquisition balance sheet fair value uplift	–	(1)
Acquisition and disposal related transaction costs		
Business acquisition/disposal costs	(1)	–
Legacy pension scheme arrangements		
Past service costs for benefit equalisation	(10)	(8)
Scheme administration costs	(1)	–
Settlement losses on post-retirement benefit schemes	(1)	–
Non-headline litigation provision movements		
Provision for John Crane, Inc. asbestos litigation	(13)	1
Cost recovery for John Crane, Inc. asbestos litigation	3	–
Movement in provision held against Titeflex Corporation subrogation claims	–	2
Other items		
Amortisation of acquisition related intangible assets	(26)	(26)
Restructuring costs	(8)	–
Irrecoverable VAT on chain export transactions	(2)	–
Non-headline items in operating profit	**(54)**	**(32)**

Post-acquisition integration costs and fair value adjustment unwind

Following the sale of Smiths Medical to ICU Medical, Inc. (ICU) in FY22, the Group holds a financial asset for the fair value of $100m additional sales consideration that is contingent on the future share price performance of ICU. In HY23 a fair value gain of £5m has been recognised on this financial asset. 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.

The impact of unwinding the acquisition balance sheet fair value adjustments required by IFRS 3 'Business combinations' has been recognised as non-headline as the charges do not relate to trading activity. The £1m charged in the prior period was due to the unwind of fair value uplifts on the acquisition of Royal Metal Products.

Acquisition and disposal related transaction costs

The £1m (31 January 2022: £nil) business acquisition/disposal costs represented incremental transaction costs including the acquisition of Plastronics. These costs did not include the cost of employees working on transactions and were reported as non-headline because they are dependent on the level of acquisition and disposal activity in the year.

Legacy pension scheme arrangements

In the current year £10m (31 January 2022: £8m) of past service costs have been recognised in respect of the equalisation of retirement benefits for men and women. These are treated as non-headline items as they are non-recurring and relate to legacy pension schemes.

Scheme administration costs of £1m (31 January 2022: £nil) have been recognised as non-headline as they relate to the administration costs, paid from cash retained in the scheme, for the TI Group Pension Scheme ('TIGPS'), where all of the scheme's liabilities have been insured by way of a bulk annuity buy-in and it is intended to fully buy-out the Scheme as soon as reasonably practical. As the Group has no expectation of receiving a refund from the scheme, an economic benefit value of zero has been placed on the TIGPS surplus.

The £1m of settlement losses on post-retirement benefit schemes in the current period (31 January 2022: £nil) relate to settlement arrangements made between the Group and former employees of the now disposed Medical business. These are considered non-headline as they arise wholly from the disposal of the Medical business that was treated as non-headline activity.

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 £13m charge (31 January 2022: £1m credit) in respect of John Crane, Inc. asbestos litigation is principally due to litigation management expenses. The £1m credit in the prior year principally arose from discount rate movements following an increase in United States of America (US) treasury bond yields. £3m (31 January 2022: £nil) of costs were recovered via insurer settlements. See note 13 for further details; and
- In the prior year, a £2m credit recognised by Titeflex Corporation was prinicipally driven by discount rate movements.

Other items

Acquisition related intangible asset amortisation costs of £26m (31 January 2022: £26m) 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.

As announced in the FY22 Annual Report, a restructuring project is underway across the Group to better serve our customers, maximise growth opportunities and improve efficiency. Non-headline charges of £8m have been incurred in the period and have been treated as non-headline due to being material and part of a pre-approved programme.

The £2m of irrecoverable VAT (31 January 2022: £nil) relates to a historic VAT classification error. This error had resulted in certain intercompany chain export transactions being treated as VAT exempt when they should have been initially classified as subject to German VAT. This has been treated as non-headline as it relates to six years of past VAT practice and will involve payment and recovery of German VAT, which spans FY23 and FY24, so may have a material impact on the Group's headline cash conversion metric.

Non-headline finance (costs)/income items

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

	Six months ended 31 January 2023 £m	Six months ended 31 January 2022 £m
Foreign exchange gain on intercompany loan with discontinued operations	–	22
Interest on overdue VAT	(2)	–
Other financing losses	(1)	(2)
Unwind of discount on provisions	(4)	(1)
Other finance income – retirement benefits	4	3
Non-headline items in finance (costs)/income	**(3)**	**22**
Non-headline loss before taxation	**(57)**	**(10)**

In FY22, £22m of foreign exchange gains on intercompany financing between Smiths Medical and the continuing group were recognised on the face of the income statement as a non-headline item due to the classification of Smiths Medical as a discontinued operation. This gain was 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.

A £2m loss (31 January 2022: £nil) has been recognised in respect of interest on the late payment of German VAT, noted above. This is excluded from headline finance costs because the charges have been recognised as non-headline and this treatment has been maintained for the interest thereon.

Other financing losses represent fair value movements on financial instruments and foreign exchange movements on borrowings. The current period loss includes £1m (31 January 2022: £2m) 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 £4m (31 January 2022: £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 £4m (31 January 2022: £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 £6m non-headline taxation charge (31 January 2022: £4m credit) comprises a charge of £14m to adjust non-recognition of a deferred tax asset, where the offsetting deferred tax liability related to the UK legacy pension scheme surplus has been taken to OCI. Offsetting this charge are credits for 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 2023 £m	Six months ended 31 January 2022 £m
Non-headline operating profit items		
Medfusion documentation remediation costs	–	(33)
Impairment of investment in Ivenix, Inc convertible debt.	–	(14)
Non-headline finance costs items		
Foreign exchange loss on intercompany loan with parent	–	(22)
Gain on sale of discontinued operation		
Gain on the sale of Smiths Medical to ICU Medical, Inc.	6	1,021
Non-headline taxation items		
Taxation on non-headline items	–	6
Non-headline items in profit from discontinued operations	**6**	**958**
Profit for the period – non-headline items for continuing and discontinued operations	**(57)**	**952**

In the current period the Group has recognised an additional £6m gain on the sale of Smiths Medical following the release of provisions that are no longer required.

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 2023 £m	Six months ended 31 January 2022 £m
Profit attributable to equity shareholders for the period		
- Continuing	103	115
- Discontinued	6	1,007
Total	109	1,122
Average number of shares in issue during the period (note 18)	356,572,308	395,260,779
Statutory earnings per share continuing operations – basic	28.9p	29.1
Statutory earnings per share continuing operations – diluted	28.9p	29.1
Statutory earnings per share total – basic	30.6p	283.9
Statutory earnings per share total – diluted	30.5p	283.7

Diluted earnings per share are calculated by dividing the profit attributable to ordinary shareholders by 356,866,804 (31 January 2022: 395,537,378) 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 2023			Six months ended 31 January 2022		
	£m	Basic EPS (p)	Diluted EPS (p)	£m	Basic EPS (p)	Diluted EPS (p)
Basic earnings per share:						
Total profit attributable to equity shareholders of the Parent Company	109	30.6	30.5	1,122	283.9	283.7
Exclude: Non-headline items (note 3)	57			(952)		
Headline earnings per share	166	46.6	46.5	170	43.0	43.0
Profit from continuing operations attributable to equity shareholders of the Parent Company	103	28.9	28.9	115	29.1	29.1
Exclude: Non-headline items (note 3)	63			6		
Headline earnings per share – continuing operations	166	46.6	46.5	121	30.6	30.6

5 Taxation

The interim tax rate of 38.4% (31 January 2022: 27.8%) is calculated by applying the estimated effective headline tax rate for continuing operations of 26.0% (31 January 2022: 28.4%) for the year ended 31 July 2023 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 2023		Six months ended 31 January 2022	
	Continuing operations £m	Tax rate	Continuing operations £m	Tax rate
Headline tax rate				
Headline profit before taxation	224		170	
Taxation on headline profit	(58)	26.0%	(48)	28.4%
Adjustments				
Non-headline items excluded from profit before taxation (note 3)	(57)		(10)	
Taxation on non-headline items and non-headline tax adjustment	(6)		4	
Total interim tax rate				
Profit before taxation	167		160	
Taxation	(64)	38.4%	(44)	27.8%

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 2022	(17)	51	34
Foreign exchange gains and losses	1	–	1
Charge to income statement	(52)	(12)	(64)
Acquisitions	–	(3)	(3)
Charge to other comprehensive income	–	14	14
Tax paid	43	–	43
At 31 January 2023	**(25)**	**50**	**25**

Developments in the Group tax position

In December 2021, the Organisation for Economic Co-operation and Development ("OECD") published rules relating to global minimum taxation called Pillar 2 rules, currently timetabled to apply in the UK to accounting periods beginning on or after 1 January 2024. The Group will continue to monitor the development and future implementation of these rules globally. However, at this time 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 post restriction 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 surplus is recognised as a retirement benefit asset to the extent the employers have the right to recover the surplus at the end of the life of the scheme, assuming all liabilities have been extinguished. The schemes are mature with a duration averaged over all scheme participants of 13 years.

The amounts recognised in the balance sheet are as follows:

	31 January 2023 £m	31 July 2022 £m
Market value of scheme assets	2,802	3,314
Present value of funded scheme liabilities	(2,610)	(3,003)
Surplus restriction	(18)	(20)
Surplus	174	291
Unfunded pension plans	(92)	(90)
Post-retirement healthcare	(7)	(7)
Present value of unfunded obligations	(99)	(97)
Net retirement benefit asset	**75**	**194**
Post-retirement assets	193	309
Post-retirement liabilities	(118)	(115)
Net retirement benefit asset	**75**	**194**

Since 31 July 2022 gilt yields have increased significantly resulting in a significant decrease in the value of the scheme's assets. There has been a corresponding decrease in the value of scheme liabilities due to an increase in the discount rate. The change in market conditions has had no impact on any funding arrangements.

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

	31 January 2023		31 July 2022	
	UK	US	UK	US
Weighted average rate of increase in benefits for active deferred members	4.0%	n/a	4.0%	n/a
Rate of increase in pensions in payment	3.3%	n/a	3.4%	n/a
Rate of increase in deferred pensions	3.3%	n/a	3.4%	n/a
Discount rate	4.5%	4.9%	3.5%	4.5%

The UK discount rate is now based on the Aon GBP Single Agency AA curve, previously the Aon GBP Select AA curve was used. This change has increased the discount rate (when rounded to the nearest 0.1% p.a.) by 0.1% and reduced UK liabilities by c1.3%. The Single Agency curve is expected to produce a a better indication of the market yield on high quality corporate bonds. The methods for setting the mortality assumptions for the UK schemes are consistent with the 31 July 2022 valuation, however an allowance has been made for the expected long-term negative impact of Covid-19 on future life expectancy. The US scheme mortality assumption remains unchanged.

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

	31 January 2023 – £m			31 July 2022 – £m		
	SIPS	TIGPS	US schemes	SIPS	TIGPS	US schemes
Present value of funded scheme liabilities						
– Active deferred members	(28)	(19)	(37)	(32)	(23)	(41)
– Deferred members	(457)	(362)	(100)	(561)	(442)	(109)
– Pensioners	(900)	(597)	(83)	(1,010)	(670)	(88)
Present value of funded scheme liabilities	(1,385)	(978)	(220)	(1,603)	(1,135)	(238)
Market value of scheme assets	1,578	996	206	1,912	1,155	225
Surplus restriction	–	(18)	–	–	(20)	–
Surplus/(deficit)	**193**	**–**	**(14)**	**309**	**–**	**(13)**

Contributions

Group contributions to the pension plans in the period totalled £3m (31 January 2022: £6m), comprising regular contributions of £nil (31 January 2022: £3m) to Smiths Industries Pension Scheme ('SIPS') and £3m (31 January 2022: £3m) to unfunded defined benefit pension schemes and post-retirement healthcare plans.

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

	Six months ended 31 January 2023 £m	Year ended 31 July 2022 £m
At beginning of period	194	413
Foreign exchange rate movements	(2)	–
Current service cost	(1)	(2)
Headline scheme administration costs	(2)	(4)
Non-headline scheme administration costs	(1)	–
Past service costs – benefit equalisations	(10)	(43)
Curtailments and settlements – continuing operations	(1)	(171)
Curtailments and settlements – discontinued operations	–	(3)
Finance income – retirement benefits	4	7
Contributions by employer	3	9
Actuarial (losses)/gains	(111)	3
Retirement benefit obligations disposed of with Smiths Medical	–	5
Movement in unrecognised assets due to surplus restriction	2	(20)
Net retirement benefit asset at end of period	**75**	**194**

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 some of its smaller benefits sections was incorrect. An additional liability of £10m has been recognised within the SIPS defined benefit obligation at 31 January 2023 to reflect estimated additional liabilities in respect of 4 further sections. The cost of £10m has been recognised as a past service cost. A wider review is being undertaken to determine if equalisation was undertaken correctly in other sections of the Scheme, which is expected to be completed by the FY23 year-end.

7 Intangible assets

	Goodwill £m	Development costs £m	Acquired intangibles £m	Software, patents and intellectual property £m	Total £m
Cost					
At 31 July 2022	1,311	174	630	193	2,308
Exchange adjustments	5	3	(5)	–	3
Additions	–	7	–	3	10
Business combinations	10	–	13	–	23
Disposals	–	–	–	(7)	(7)
At 31 January 2023	**1,326**	**184**	**638**	**189**	**2,337**
Amortisation					
At 31 July 2022	67	123	373	157	720
Exchange adjustments	–	2	(2)	(1)	(1)
Charge for the period	–	1	26	4	31
Disposals	–	–	–	(7)	(7)
At 31 January 2023	**67**	**126**	**397**	**153**	**743**
Net book value at 31 January 2023	**1,259**	**58**	**241**	**36**	**1,594**
Net book value at 31 July 2022	1,244	51	257	36	1,588

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 FY22 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 in the half year to 31 January 2023 the Detection CGU has outperformed its impairment model forecast on both revenue and profit, therefore there are no impairment assessment trigger events at this time.

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 2022	176	457	129	762
Exchange adjustments	1	2	2	5
Additions	7	17	2	26
Business combinations	–	1	2	3
Disposals	(2)	(5)	(1)	(8)
At 31 January 2023	**182**	**472**	**134**	**788**
Depreciation				
At 31 July 2022	108	299	112	519
Exchange adjustments	–	2	2	4
Charge for the period	4	12	5	21
Disposals	(2)	(5)	(1)	(8)
At 31 January 2023	**110**	**308**	**118**	**536**
Net book value at 31 January 2023	**72**	**164**	**16**	**252**
Net book value at 31 July 2022	68	158	17	243

9 Right of use assets

	Properties £m	Vehicles £m	Equipment £m	Total £m
Cost				
At 31 July 2022	174	21	1	196
Recognition of right of use assets	8	4	–	12
Derecognition of right of use assets	(2)	–	–	(2)
At 31 January 2023	**180**	**25**	**1**	**206**
Depreciation				
At 31 July 2022	75	15	–	90
Charge for the year	14	3	–	17
Derecognition of right of use assets	(2)	–	–	(2)
At 31 January 2023	**87**	**18**	**–**	**105**
Net book value at 31 January 2023	**93**	**7**	**1**	**101**
Net book value at 31 July 2022	99	6	1	106

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 2022	364	19	8	4	395
Fair value change through Profit and Loss	–	5	–	–	5
Fair value change through Other Comprehensive Income	28	–	(1)	–	27
At 31 January 2023	**392**	**24**	**7**	**4**	**427**

Following the sale of Smiths Medical the Group has recognised a financial asset for its investment in 10% of the equity in ICU Medical, Inc (ICU) and a financial asset for the fair value of $100m additional sales consideration that is contingent on the future share price performance of ICU.

11 Borrowings and net cash/(debt)

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

	31 January 2023 £m	31 July 2022 £m
Cash and cash equivalents		
Net cash and cash equivalents	**795**	**1,056**
Short-term borrowings		
€600m 1.25% Eurobond 2023	(527)	(502)
Overdrafts	–	(1)
Lease liabilities	(30)	(29)
Interest accrual	(17)	(6)
	(574)	**(538)**
Long-term borrowings		
€650m 2.00% Eurobond 2027	(550)	(538)
Lease liabilities	(84)	(90)
	(634)	**(628)**
Borrowings	**(1,208)**	**(1,166)**
Derivatives managing interest rate risk and currency profile of the debt	**(16)**	**(40)**
Net debt	**(429)**	**(150)**

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	–	4	–	(20)	(16)
Foreign exchange forward contracts	–	13	(2)	–	11
At 31 January 2023	**–**	**17**	**(2)**	**(20)**	**(5)**
Derivatives managing interest rate risk and currency profile of the debt	–	–	(20)	(20)	(40)
Foreign exchange forward contracts	–	4	(7)	–	(3)
At 31 July 2022	**–**	**4**	**(27)**	**(20)**	**(43)**

Movements in net debt

	Cash and cash equivalents £m	Short-term borrowings £m	Long-term borrowings £m	Interest rate and cross currency swaps £m	Net debt £m
At 31 July 2022	1,056	(538)	(628)	(40)	(150)
Foreign exchange gains/(losses)	(2)	–	–	–	(2)
Net increase in cash and cash equivalents	(259)	1	–	–	(258)
Net movement in lease liabilities	–	5	–	–	5
Fair value movement from interest rate hedging	–	(25)	(12)	–	(37)
Revaluation of derivative contracts	–	–	–	24	24
Net movement in finance cost accruals	–	(11)	–	–	(11)
Reclassification to short-term	–	(6)	6	–	–
At 31 January 2023	**795**	**(574)**	**(634)**	**(16)**	**(429)**

12 Fair value of financial instruments

	Basis for determining fair value	As at 31 January 2023 At amortised cost £m	As at 31 January 2023 At fair value through profit or loss £m	As at 31 January 2023 At fair value through OCI £m	As at 31 January 2023 Total carrying value £m	As at 31 January 2023 Total fair value £m	As at 31 July 2022 At amortised cost £m	As at 31 July 2022 At fair value through profit or loss £m	As at 31 July 2022 At fair value through OCI £m	As at 31 July 2022 Total carrying value £m	As at 31 July 2022 Total fair value £m
Financial assets											
Other investments	A	–	4	392	396	396	–	4	364	368	368
Other investments	F	–	24	7	31	31	–	19	8	27	27
Cash and cash equivalents	A	394	401	–	795	795	506	550	–	1,056	1,056
Trade and other financial receivables	B/C	787	–	–	787	787	807	–	–	807	807
Derivative financial instruments	C	–	17	–	17	17	–	4	–	4	4
Total financial assets		**1,181**	**446**	**399**	**2,026**	**2,026**	**1,313**	**577**	**372**	**2,262**	**2,262**
Financial liabilities											
Trade and other financial payables	B	(730)	–	–	(730)	(730)	(728)	–	–	(728)	(728)
Short-term borrowings	D	(544)	–	–	(544)	(544)	(509)	–	–	(509)	(509)
Long-term borrowings	D	(550)	–	–	(550)	(542)	(538)	–	–	(538)	(544)
Lease liabilities	E	(114)	–	–	(114)	(114)	(119)	–	–	(119)	(119)
Derivative financial instruments	C	–	(22)	–	(22)	(22)	–	(47)	–	(47)	(47)
Total financial liabilities		**(1,938)**	**(22)**	–	**(1,960)**	**(1,952)**	**(1,894)**	**(47)**	**–**	**(1,941)**	**(1,947)**

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	Non-headline and legacy Titeflex Corporation litigation £m	Non-headline and legacy Other £m	Total £m
Current liabilities	10	34	14	30	88
Non-current liabilities	1	195	38	13	247
At 31 July 2022	11	229	52	43	335
Foreign exchange rate movements	–	(3)	(1)	–	(4)
Provision charged	2	11	–	6	19
Provision released	(3)	–	–	(10)	(13)
Unwind of provision discount	–	3	1	–	4
Utilisation	(2)	(22)	(1)	(10)	(35)
At 31 January 2023	**8**	**218**	**51**	**29**	**306**
Current liabilities	6	28	15	20	69
Non-current liabilities	2	190	36	9	237
At 31 January 2023	**8**	**218**	**51**	**29**	**306**

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 2023 there are warranty and product liability provisions of £6m (31 July 2022: £7m). 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 2023	31 July 2022	31 July 2021	31 July 2020	31 July 2019
JCI claims experience					
Claims against JCI that have been dismissed	307,000	306,000	305,000	297,000	285,000
Claims in which JCI is currently a defendant	22,000	22,000	22,000	25,000	38,000
Cumulative final judgments, after appeals, against JCI since 1979	153	149	149	149	144
Cumulative value of awards ($m) since 1979	189	175	175	175	168

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 2023 £m	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m	Year ended 31 July 2019 £m
John Crane, Inc. litigation provision					
Gross provision	256	258	220	235	257
Discount	(38)	(29)	(8)	(4)	(20)
Discounted provision	218	229	212	231	237
Taxation	(57)	(57)	(54)	(59)	(50)
Discounted post-tax provision	**161**	**172**	**158**	**172**	**187**
Operating profit (credit)/charge					
Increased provision for adverse judgments and legal defence costs	20	24	10	14	7
Change in US risk free rates	(9)	(18)	(5)	16	8
Subtotal – items charged to the provision	11	6	5	30	15
Litigation management expense - legal fees in connection with litigation against insurers and defence strategy	2	1	1	1	2
Recoveries from insurers	(3)	–	(9)	(3)	(11)
Total operating profit charge/(credit)	**10**	**7**	**(3)**	**28**	**6**
Cash-flow					
Provision utilisation - legal defence costs and adverse judgements	(22)	(21)	(13)	(23)	(24)
Litigation management expense	(2)	(1)	–	(1)	(2)
Recoveries from insurers	3	–	9	3	11
Net cash outflow	**(21)**	**(22)**	**(4)**	**(21)**	**(15)**

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 £196m and future spend at the 95th percentile of £254m (31 July 2022: £203m and £268m, respectively). Statistical analysis of the distribution of these outcomes indicates that there is a 50% probability that the total future spend will fall between £241m and £268m (31 July 2022: between £239m and £263m), compared with the gross provision value of £256m (31 July 2022: £258m).

Sensitivity of the projections to changes in the time horizon used

If the asbestos litigation environment becomes more volatile and uncertain, 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 £17m (31 July 2022: £18m) and reducing it by five years would reduce the discounted pre-tax provision by £95m (31 July 2022: £97m).

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 £15m (31 July 2022: £15m); extending it by five years would increase the discounted pre-tax provision by £54m (31 July 2022: £56m). 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 FY21 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 £51m (31 July 2022: £52m) 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 2023 £m	31 July 2022 £m
Gross provision	91	87
Discount	(40)	(35)
Discounted pre-tax provision	**51**	**52**
Taxation	(12)	(12)
Discounted post-tax provision	**39**	**40**

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 2022: £3m) lower, and if the benefit were 0.5% lower, the discounted pre-tax provision would be £3m (31 July 2022: £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 £4m (31 July 2022: £5m), 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 2022: £4m), 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 2023 £m	Six months ended 31 January 2022 £m
Dividends paid in the period	97	103

In the current period an ordinary final dividend of 27.3p (31 January 2022: 26.0p) was paid on 18 November 2022.

An interim dividend of 12.9 pence per share was declared by the Board on 24 March 2023 and will be paid to shareholders on 17 May 2023. 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 11 April 2023.

15 Acquisitions

On 5 January 2023, the Group's Interconnect division completed the acquisition of 100% of the share capital of Plastronics. Plastronics is a leading supplier of burn-in test sockets and patented spring probe contacts for the semiconductor test market segment. The acquisition strengthens the existing portfolio of Smiths Interconnect and provides cross selling opportunities in Asia and the US.

The intangible assets recognised on acquisition comprise customer relationships, intellectual property and technology. Goodwill of £10m represents the expected synergies from the strategic fit of the acquisition and the value of the expertise in the assembled workforce and is expected to be deductible for tax purposes. From the date of acquisition to 31 January 2023, Plastronics contributed £1m to revenue and an immaterial profit before taxation. If the Group had acquired this business from the beginning of the financial year, the acquisition would have contributed £8m to revenue and less than £1m to profit before taxation. The consideration was financed using the Group's cash resources.

The provisional balance sheet at the date of acquisition is:

		Plastronics £m
Non-current assets	- acquired intangible assets	13
	- plant and machinery	1
	- fixtures and fittings	2
Current assets	- inventory	3
	- trade and other receivables	2
Current liabilities	- trade and other payables	(3)
Non-current liabilities	- deferred tax	(3)
Net assets acquired		**15**
Goodwill on current period acquisitions		**10**
Cash paid during the period		22
Deferred consideration		3
Total consideration		**25**

16 Cash-flow from operating activities

	Six months ended 31 January 2023			Six months ended 31 January 2022		
	Headline £m	Non-headline (note 3) £m	Total £m	Headline £m	Non-headline (note 3) £m	Total £m
Operating profit/(loss) - continuing operations	241	(54)	187	189	(32)	157
- discontinued operations	–	–	–	66	(47)	19
Amortisation of intangible assets	5	26	31	5	26	31
Depreciation of property, plant and equipment	21	–	21	19	–	19
Depreciation of right of use assets	17	–	17	15	–	15
(Gain)/loss on disposal of property, plant and equipment	–	–	–	(1)	–	(1)
(Gain)/loss on fair value of contingent consideration	–	(5)	(5)	–	–	–
Impairment of investment in Ivenix, Inc.	–	–	–	–	14	14
Share-based payment expense	8	–	8	5	–	5
Retirement benefits	1	10	11	3	2	5
Recycling of cash flow hedge reserve	–	–	–	(3)	–	(3)
(Increase)/decrease in inventories	(116)	–	(116)	(79)	1	(78)
Decrease/(increase) in trade and other receivables	21	–	21	17	–	17
Increase/(decrease) in trade and other payables	(8)	2	(6)	22	(43)	(21)
(Decrease)/increase in provisions	(3)	(16)	(19)	(2)	60	58
Cash generated from operations	**187**	**(37)**	**150**	**256**	**(19)**	**237**
Interest paid	(29)	–	(29)	(12)	–	(12)
Interest received	22	–	22	3	–	3
Tax paid	(43)	–	(43)	(46)	–	(46)
Net cash inflow/(outflow) from operating activities	**137**	**(37)**	**100**	**201**	**(19)**	**182**
- continuing operations	137	(37)	100	155	(19)	136
- discontinued operations	–	–	–	46	–	46

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 2023			Six months ended 31 January 2022		
	Headline £m	Non-headline £m	Total £m	Headline £m	Non-headline £m	Total £m
Net cash inflow/(outflow) from operating activities	137	(37)	100	155	(19)	136
Include:						
Expenditure on capitalised development, other intangible assets and property, plant and equipment	(36)	–	(36)	(31)	–	(31)
Repayment of lease liabilities	(18)	–	(18)	(15)	–	(15)
Disposals of property, plant and equipment	–	–	–	1	–	1
Free cash-flow			**46**			**91**
Exclude:						
Repayment of lease liabilities	18	–	18	15	–	15
Interest paid	29	–	29	8	–	8
Interest received	(22)	–	(22)	(3)	–	(3)
Tax paid	43	–	43	37	–	37
Operating cash-flow	**151**	**(37)**	**114**	**167**	**(19)**	**148**

Headline cash conversion

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

	Six months ended 31 January 2023			Six months ended 31 January 2022		
	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	241	–	241	189	–	189
Headline operating cash-flow	151	–	151	167	8	175
Headline operating cash conversion	**63%**		**63%**	**88%**		**93%**

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

	Six months ended 31 January 2023 £m	Six months ended 31 January 2022 £m
Free cash-flow	**46**	**91**
Free cash-flow from discontinued operations	–	25
Investment in financial assets and acquisition of businesses	(22)	(4)
Disposal of businesses and discontinued operations	(7)	1,348
Other net cash-flows used in financing activities (note: repayment of lease liability is included in free cash-flow)	(275)	(217)
(Decrease)/increase in cash and cash equivalents	**(258)**	**1,243**

17 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 2022.

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 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**	
At 31 July 2022	362,356,159	386,678,211	501	
Share buybacks	(9,295,685)	(30,105,903)	(3)	(144)
At 31 January 2023	**353,060,474**	**356,572,308**	**498**	

Share buybacks

In connection with the sale of Smiths Medical to ICU Medical, Inc., 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 2023 the Group had contracted to purchase 43,475,348 shares for a total consideration of £655m, of which 26,766 shares with a value of £0.5m were yet to settle and be cancelled. Up to 31 January 2022, the average price paid per share for buybacks during the programme was £14.98.

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 as follows: • to add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998; • to eliminate the Group's investment in ICU Medical, Inc equity and deferred consideration contingent on the future share price performance of ICU Medical, Inc; and • to eliminate post-retirement benefit assets and liabilities and non-headline litigation provisions related to John Crane, Inc. and Titeflex Corporation, both net of deferred tax, 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 8 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 16.
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 concluded in FY22. A reconciliation of Headline EBITDA to Headline EBITDA before restructuring costs and write-downs is shown in the note below.
Net debt/(cash)	Net debt/(cash) 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 debt/(cash).
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 16.
Operating profit	Operating profit is earnings before finance costs and tax. A reconciliation of operating profit to profit before tax is shown on the consolidated 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
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.
Earnings per share ('EPS') growth	EPS growth is the growth in headline basic EPS (see note 5), on a reported basis. EPS growth is used to measure and monitor performance.
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.
Operating 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 16.
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.
Organic growth	Organic growth adjusts the movement in headline performance to exclude the impact of foreign exchange and acquisitions. Organic growth is used by the Group to aid comparability when monitoring performance.
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.
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 2022: £478m), 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 2023 £m	31 January 2022 £m
Net assets		**2,497**	**3,167**
Adjust for:			
Goodwill recognised directly in reserves		478	478
Retirement benefit assets and obligations	6	(75)	(435)
Tax related to retirement benefit assets and obligations		40	115
John Crane, Inc. litigation provisions and related tax		161	156
Titeflex Corporation litigation provisions and related tax		39	35
Investment in ICU Medical, Inc equity		(392)	(397)
Deferred contingent consideration		(24)	(30)
Net debt/(cash)		429	(262)
Capital employed		**3,153**	**2,827**

Return on capital employed

	Notes	31 January 2023 £m	31 January 2022 £m
Headline operating profit for previous 12 months		469	395
Average capital employed		3,083	2,824
Return on capital employed ("ROCE")		**15.2%**	**14.0%**

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 2023 £m	Six months ended 31 January 2022 £m
Headline operating profit	2	**241**	**189**
Exclude:			
– depreciation of property, plant and equipment	8	21	19
– depreciation of right of use assets	9	17	15
– amortisation of development costs	7	1	2
– amortisation of software, patents and intellectual property	7	4	3
Headline EBITDA		**284**	**228**

Annualised headline EBITDA

	Notes	Year ended 31 January 2023 £m	Year ended 31 January 2022 £m
Headline EBITDA for the period		**284**	**228**
Add: Headline EBITDA for the previous year		495	458
Exclude: Headline EBITDA for the first six months of the previous year		(228)	(206)
Annualised headline EBITDA		**551**	**480**
Add back: Restructuring costs in past 12 months		–	20
Annualised headline EBITDA before restructuring costs		**551**	**500**

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

	Year ended 31 January 2023 £m	Year ended 31 January 2022 £m
Annualised headline EBITDA before restructuring costs	551	500
Net debt/(cash)	429	(262)
Ratio of net debt/(cash) to headline EBITDA before restructuring costs	**0.8**	**(0.5)**