Friday 26 March 2021

Smiths Group plc - Interim Results for the half year ended 31 January 2021

Robust first half performance with improving trends

Highlights

- **Robust performance despite market disruption**
  - Underpinned by our market-leading positions and high proportion of aftermarket revenues
- **Good profit conversion and excellent cash generation**
  - Group-wide operating model driving efficiency, innovation and consistent execution
  - Strategic restructuring on track to deliver full £70m annualised benefit from FY2022
- **Further portfolio strengthening for long-term value creation**
  - Continued investment in new technologies
  - Flex-Tek acquisition of Royal Metal in February 2021
- **Smiths Group of the future - aligned to long-term trends of sustainability and digitisation**
  - All businesses united by the shared purpose of making a safer, cleaner and more efficient world
- **Smiths Medical - continuing to strengthen ahead of separation in Q4 FY2021**
  - Finalising key separation workstreams

	Headline[1]				Statutory		
	HY 2021 £m	HY 2020 £m	Reported growth	**Underlying growth[2]**	HY 2021 £m	HY 2020 £m	Reported growth
Smiths continuing operations[3]							
Revenue	1,150	1,240	(7)%	**(5)%**	1,150	1,240	(7)%
Operating profit	166	186	(11)%	**(6)%**	143	145	(1)%
Smiths Medical - discontinued operations[3]							
Profit after tax	67	70	(4)%	**+5%**	107	133	(20)%
Total Group[4]							
Profit for the half year	171	187	(9)%	**(3)%**	129	145	(11)%
Basic EPS	42.9p	46.9p	(9)%	**(3)%**	32.3p	36.3p	(11)%
Free cash-flow[5]	188	110	+71%				
Cash conversion[5]	129%	98%	+31%	**+33%**			
Dividend[6]	11.7p	11.0p	+6%		11.7p	11.0p	+6%

The differences between headline and statutory operating profit are non-headline items as defined in note 3 to the condensed financial statements, of which the largest constituents are the amortisation of acquired intangibles, cost recovery for asbestos litigation in John Crane, Inc and subrogation claims in Titeflex Corporation.

Outlook

- Improving H2 trends
- Restructuring benefits supporting further good profit conversion
- Continued strong cash generation
- Dividend increase reflects our confidence in the medium and longer term prospects
- Subject to continued market recovery, Group is confident of meeting market expectations for the full year

Andy Reynolds Smith, Group Chief Executive, commented:

"This is a robust set of results relative to our end markets, with a resilient top line, good profit conversion and excellent cash generation. This has been delivered by our exceptional people in very challenging circumstances and my sincere thanks go to them. We have continued to position Smiths in the very best way - strategically, operationally, and financially - to enable us to take full advantage of market recovery when it comes.

The Group is united by the shared purpose of making a safer, cleaner and more efficient world. The accelerating global trends of sustainability and digitisation play to the core strengths and capabilities of Smiths' existing business model. We continue to enhance the positioning of the Group for outperformance through targeted investment in innovation and disciplined transactions - including the planned separation of Smiths Medical by the end of FY2021, which will focus and simplify the Group and maximise value for all stakeholders.

Whilst economic uncertainty remains, against the backdrop of our robust first half performance and the improving second half trends, the Group is confident of meeting market expectations for the full year and delivering long-term sustainable value."

Statutory reporting

Statutory reporting takes account of all items excluded from headline performance. On a statutory basis, total Group profit for the half year was £129m (HY 2020: £145m) and basic earnings per share were 32.3p (HY 2020: 36.3p).

See accounting policies for an explanation of the presentation of results and note 3 to the condensed financial statements for an analysis of non-headline[5] items.

Definitions

The following definitions are applied throughout the financial report and are Alternative Performance Measures (APMs) as defined in note 19 to the condensed financial statements:

[1] Headline: In addition to statutory reporting, the Group reports on a headline basis. Definitions of headline metrics, and information about the adjustments to statutory measures, are provided in note 3 to the condensed financial statements.

[2] Underlying modifies headline performance to adjust prior year to reflect an equivalent period of ownership for divested businesses, exclude the effects of foreign exchange, acquisitions, restructuring costs and write-downs, and include depreciation and amortisation of discontinued operations for comparability purposes.

[3] Continuing operations exclude Smiths Medical which is accounted for as 'Discontinued operations – businesses held for distribution to owners'. Discontinued operations are defined in note 17 to the condensed financial statements.

[4] Total Group comprises continuing operations and discontinued operations.

[5] APMs are defined in note 19 to the condensed financial statements.

[6] HY 2020 dividend was declared in September 2020 as part of the full year announcement.

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Presentation

The management presentation via webcast will begin at 09.00 (UK time) today at https://smiths.com/investors/results-reports-and-presentations, with a recording available from 13.00 (UK time).

Legal Entity Identifier (LEI): 213800MJL6IPZS3ASA11

Results overview

Continuing operations (£m)	HY 2020	Foreign exchange	Restructuring costs	Acquisitions & disposals	Underlying	HY 2021
Revenue	1,240	(34)	-	1	**(57)**	**1,150**
Headline operating profit	186	(7)	(1)	(0)	**(12)**	**166**
Headline operating margin	15.0%	(20)bps	(10)bps	(10)bps	**(20)bps**	**14.4%**

HY 2021	Underlying revenue growth	Underlying margin	Underlying variance in margin to prior year
John Crane	(10)%	19.8%	(130)bps
Smiths Detection	(6)%	12.7%	(240)bps
Flex-Tek	(1)%	18.5%	+20bps
Smiths Interconnect	+11%	12.1%	+560bps
Continuing operations	**(5)%**	**14.6%**	**(20)bps**

Smiths (continuing operations)

The commentary below refers to continuing operations (excluding Smiths Medical), unless otherwise stated.

Revenue

Revenue for continuing operations was down £(57)m or (5)%, on an underlying basis, against a very challenging market backdrop and pre-COVID comparators. The robust results reflect the Group's market-leading positions and high proportion of aftermarket revenues. Aftermarket represented 49% of underlying revenue during the period.

Revenue declined (7)% on a reported basis, to £1,150m (HY 2020: £1,240m). This included £(34)m of adverse foreign exchange translation and +£1m from PathSensors, a leading bio-technology solutions and environmental-testing company acquired by Smiths Detection in August 2020.

Operating profit and margin

The Group delivered good profit conversion, with headline operating profit down £(12)m or (6)% on an underlying basis. Central costs decreased by £(7)m to £(20)m, as the Group continues to focus on optimising operational efficiency.

Headline operating profit decreased (11)% on a reported basis, to £166m (HY 2020: £186m). This included £(7)m of adverse foreign exchange translation, and £(1)m of restructuring costs.

Headline operating margin decreased (20)bps on an underlying basis, reflecting the strong cost controls, and (60)bps on a reported basis to 14.4%.

The £(23)m difference between headline operating profit of £166m and statutory operating profit of £143m is non-headline items as defined in note 3 of the condensed financial statements. The largest constituents relate to amortisation of acquired intangible assets, cost recovery for asbestos litigation in John Crane, Inc and subrogation claims in Titeflex Corporation. On a statutory basis, after taking into account all items excluded from headline performance, operating profit of £143m was £(2)m lower than last year (HY 2020: £145m), reflecting the lower headline profit.

Finance costs

Headline finance costs of £(21)m (HY 2020: £(26)m) were £5m lower than last year. This reflects the impact of lower US dollar interest rates. Statutory finance costs were £(59)m (HY 2020: £(99)m) mainly due to a £(38)m foreign exchange loss on an intercompany loan with Smiths Medical (HY 2020: £(68)m) ; the matching credit in discontinued operations nets out to zero in Total Group earnings.

Taxation

The headline tax charge for the half year of £(41)m (HY 2020: £(43)m) represents an effective rate of 28% (FY2020: 28%). The Total Group headline effective tax rate was 27% (FY2020: 26%).

Non-headline taxation items of £(21)m (HY 2020: £(9)m) related to the write-off of deferred tax driven by pension movements. The statutory effective tax rate was 74.4% (HY 2020: 74.3%) due to the non-headline items. Please refer to notes 3 and 6 of the condensed financial statements for further details.

R&D and capex

Technology and innovation are driving the future of Smiths. To support that, we have increased Group-wide R&D spend by 34% in the last five years. Through our Group-wide innovation framework we selectively invest in future-focused projects that are aligned with our purpose and strategy. Due to the timing of some large R&D projects, the income statement cost of R&D of £(41)m was below prior year (HY 2020: £(46)m). The cash cost decreased to £(48)m or 4.2% of sales (HY 2020: £(62)m or 5.0%).

Capex of £(29)m (HY 2020: £(37)m) represented 1.2x depreciation and amortisation (HY 2020: 1.4x).

Portfolio

The Group continues to enhance its strategic positioning through the recycling of capital out of lower growth and lower return businesses into higher growth and higher return opportunities. Since 2016 the Group has completed 11 disposals with proceeds of c.£540m and 12 acquisitions for c.£1bn.

In February 2021, the Group acquired Royal Metal Products LLC ("Royal Metal"), a leading manufacturer of residential and light commercial HVAC products for $107m. Royal Metal will be integrated into Flex-Tek with adjacent product offerings for the air distribution market and access to a larger customer base, including wholesalers. The acquisition will complement the organic growth that Flex-Tek is already driving through the development of innovative air distribution products that support improved energy efficiency and indoor air quality. For more information, please see note 18 of the condensed financial statements.

Smiths Medical (discontinued operations)

The Group is committed to completing the separation of Smiths Medical by the end of the financial year, with the primary focus on ensuring we maximise shareholder value. We are finalising the key separation workstreams including governance, tax planning, debt structure, transaction documents and pensions.

Accounting standards require the Group to stop charging depreciation and amortisation within Smiths Medical, since it has been reclassified as discontinued operations. For comparability purposes, depreciation and amortisation of £21m (HY 2020: £23m) have been included in the calculation of underlying measures.

Smiths Medical delivered revenue of £427m, up +0.2% on an underlying basis, with good growth held back by the impact of fewer elective procedures as a result of COVID-19. Revenue was down (2)% on a reported basis, including £(8)m of adverse foreign exchange translation.

Headline operating profit of £89m was up +2% on an underlying basis. Headline operating profit was down (5)% on a reported basis, due to £(2)m of adverse foreign exchange and £(3)m of restructuring costs. Restructuring costs include site consolidation, as well as delayering and decentralisation to increase efficiency and effectiveness. Headline operating margin was up +30bps on an underlying basis, but down (80)bps to 20.9% on a reported basis due to restructuring charges.

The difference between statutory and headline operating profit is £1m of separation costs.

Further detail on Smiths Medical's performance can be found in the divisional section later in the release.

Total Group

The commentary below refers to Total Group, unless otherwise stated.

COVID-19

The health, safety and wellbeing of our people and our operations have always been our number one priority. During the COVID-19 pandemic we have put in place measures to ensure that our colleagues and others are kept safe and well while continuing to serve our customers. We have maintained business continuity throughout with minimal interruption to our aftermarket support.

We adopted a Group-led approach to managing the global challenges; as a result we were able to respond better, faster and more cost effectively. This unified response supported our robust performance in the first half of FY2021 despite the challenging market backdrop. Pleasingly we are beginning to see improvements in some end markets and improving order books in some of our businesses. We are very well positioned to maximise the growth opportunities when they come.

Restructuring costs

HY 2021 £m	HY 2021 restructuring P&L costs	Total restructuring P&L costs to date	HY 2021 cash outflow
John Crane	(0)	**(14)**	(5)
Smiths Detection	(0)	**(14)**	(2)
Flex-Tek	(0)	**(0)**	(0)
Smiths Interconnect	(1)	**(3)**	(2)
Centre	-	**(1)**	(1)
Group – continuing operations	**(1)**	**(32)**	**(10)**
Smiths Medical	(3)	**(7)**	(0)
Total Group	**(4)**	**(39)**	**(10)**

The Group announced last year that it was undertaking a strategic restructuring programme; this brings together a number of pre-COVID initiatives to ensure that the Group is better positioned for long-term growth and consistent outperformance. The programme supports the achievement of our goal to deliver operating margins of 18-20%.

The programme impacts all divisions and is on track to deliver full annualised benefits of at least £70m from FY2022 onwards. The total cost of the programme is now anticipated to be c.£(60)-(65)m spread across FY2020 and FY2021. In H1 2021 the restructuring benefits were ahead of the programme's costs but are still expected to be neutral for the full year. In the first half we incurred £(4)m of P&L costs and a cash outflow of £(10)m. The overall programme is on track, despite some phasing changes related to local consultations.

Total profit and EPS

Total headline profit after tax decreased by (9)% on a reported basis. Headline basic EPS was down (3)% on an underlying basis and (9)% on a reported basis. Total statutory profit after tax decreased by (11)% to £129m (HY 2020: £145m), with non-headline items flat to HY 2020. Statutory basic EPS was also down (11)% to 32.3p (HY 2020: 36.3p).

Cash-flow

Strong cash generation is a key characteristic of our business. The Group delivered an excellent cash performance in the first half. Operating cash-flow* was £301m (HY 2020: £252m). This was achieved despite ongoing disruption associated with the COVID-19 pandemic. Operating headline cash conversion was 129% (HY 2020: 98%), or 131% excluding restructuring costs.

Free cash-flow of £188m (HY 2020 restated to include lease payments: £110m) increased by £78m, underpinned by the strong operating cash-flow. Free cash-flow as a percentage of operating profit has now been added as a key performance measure to our long-term incentive programmes, to ensure closer alignment with shareholder interests.

Net cash inflow from operating activities was £262m (HY 2020: £187m). See note 15 to the condensed financial statements for a reconciliation of headline operating cash-flow to statutory cash-flow.

Debt

Net debt* (including leases) at 31 January 2021 was £1,075m, a decrease of £(66)m in the period. Annualised headline EBITDA* from continuing and discontinued operations was £582m. Net debt to EBITDA was 1.7x after inclusion of lease liabilities under IFRS16 (1.8x including restructuring costs).

Gross debt* was £1,574m (FY2020: £1,609m). There are no covenants associated with this debt. The weighted average maturity was 3.7 years and there are no maturities before October 2022. Cash balances increased to £399m (FY2020: £386m).

An $800m (c.£584m at the period-end exchange rate) revolving credit facility ('RCF') remains undrawn and matures in November 2024. The only covenant relates to interest cover which must be greater than or equal to 3 times, compared with 11 times for the half year. Taking cash and the RCF together, total liquidity was approximately £1bn at the end of the period.

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

* APMs are defined in note 19 to the condensed financial statements

Pensions
On 27 October 2020, the Smiths Industries Pension Scheme ('SIPS') secured an additional £146.5m bulk annuity buy-in agreement with Canada Life, which insured the benefits of a further c.1,000 pensioners. This followed the TI Group Pension Scheme ('TIGPS') securing a buy-in bulk annuity with Aviva in September 2020 (as previously announced). Both buy-ins demonstrate continued progress in the de-risking of the Company's pension liabilities.

The two main UK pension schemes and the US pension plan are well positioned to withstand a volatile market environment. They are well hedged against changes in interest and inflation rates. Approximately 90% of assets are invested in third-party annuities, government bonds and investment grade credit. Approximately 1% of assets is invested in equities. As at 31 January 2021 approximately 40% of the UK liabilities had been de-risked through the purchase of annuities from third party insurers.

The net accounting surplus decreased to £293m (FY2020: £372m) principally driven by asset returns underperforming the discount rate over the period and the accounting treatment of the UK schemes' recent bulk annuity purchases.

The formal triennial valuation for TIGPS at 5 April 2020 has recently concluded. It shows a surplus on a technical provisions basis and further progress towards full buy-out. Barring unforeseen events, we now expect to reach a full buy-out of TIGPS ahead of the target date of 2028 and without any further cash cost to the Company. As a result pension contributions are expected to reduce by £4m this year and by £12m in FY2022.

The triennial valuation for SIPS is still being finalised and is due to be completed by the end of June 2021.

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

In FY2020 the Board recommended a total dividend of 35.0p per share for the year. This included a delayed interim dividend of 11.0p. The Board has declared an interim FY2021 dividend of 11.7p per share, up 6% reflecting the Board's confidence in the Group's performance and improving trajectory. The interim dividend will be paid on 14 May 2021 to shareholders on the register at close of business on 9 April 2021.

The Company offers a Dividend Reinvestment Plan (DRIP) - see our website for details. To participate in the DRIP shareholders must submit their election notice to be received by 23 April 2021 (the Election Date). Elections received after the Election Date will apply to dividends paid after 14 May 2021. Purchases under the DRIP are made on or as soon as practicable after the dividend payment date and at prevailing market prices.

Return on Capital Employed (ROCE)*
ROCE was 11.2% (HY 2020: 14.7%). This is calculated using the Group's 12-month rolling average capital employed and therefore includes 10 months of COVID-related disruption. The decrease reflects lower profitability and restructuring costs during that 12-month period. For further detail of its calculation, please refer to note 19 to the condensed financial statements.

Foreign exchange
The results of overseas operations are translated into sterling at average exchange rates. The 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 January 2021 (6 months)	31 January 2020 (6 months)	31 January 2021	31 January 2020
USD	1.32	1.27	1.37	1.32
EUR	1.11	1.15	1.13	1.19

Brexit
Given that over 95% of Group revenue originates outside the UK, the impact of Brexit was, as anticipated, very limited.

* APMs are defined in note 19 to the condensed financial statements

Outlook

Whilst economic uncertainty remains, against the backdrop of a robust first half performance and the improving second half trends, the Group is confident of meeting market expectations for the full year. This is supported by improving order books and the benefits of the strategic restructuring programme. The Group is well positioned to maximise growth opportunities and deliver long-term sustainable outperformance and value creation.

Business review

John Crane

John Crane is a leading provider of mission-critical engineered solutions for global energy and process industries, supporting improved efficiency and emission reductions. c.59% of revenue is derived from the energy sector (downstream and midstream oil & gas and power generation, including renewable and sustainable sources of energy). c.41% comes from other process industries (including chemical, pharmaceutical, mining, water treatment, and pulp & paper). 68% of John Crane revenue comes from aftermarket sales. John Crane represents 36% of continuing Group revenue.

	HY 2021 £m	HY 2020 £m	Reported growth	Underlying growth
Revenue	410	474	(14)%	**(10)%**
Original Equipment	130	154	(16)%	**(14)%**
Aftermarket	280	320	(13)%	**(9)%**
Headline operating profit	81	101	(20)%	**(16)%**
Statutory operating profit	82	94	(13)%	
Return on capital employed	16.9%	23.3%	(640)bps	
R&D cash costs as % of sales	2.1%	1.9%	+20bps	

Revenue

(£m)	HY 2020 reported	Foreign exchange	Acquisitions & disposals	Underlying	HY 2021 reported
Revenue	474	(16)	-	**(48)**	**410**

John Crane's market-leading positions and the strength of its global service network continued to underpin its performance, despite the challenges in the energy market and COVID-19 disruptions. As anticipated, revenue was down (10)% on an underlying basis. Revenue was down (14)% on a reported basis, as foreign exchange had a £(16)m adverse impact.

Underlying revenue from John Crane's Energy segment was down (16)%, impacted by the market downturn and pandemic related disruptions. Underlying revenue from Industrial activities was marginally down at c.(1)%, with good growth in chemical processing offset by a slowdown in general industry.

Underlying revenue from Original Equipment ('OE') declined (14)%, as volatility in energy prices and COVID-19 disruptions put pressure on customers across all geographies. However, the rate of orders is improving, and John Crane secured multiple new contracts during the period. These include some important wins for midstream upgrade projects, using our new pipeline technologies that reduce emissions, as well as further liquified natural gas projects incorporating our digital sensor technology and methane reduction solutions. These contracts draw on John Crane's core capabilities of supporting our customers' enhanced efficiency, performance and sustainability. These are examples of where our leading technology, asset management capabilities and global footprint drive competitive advantage and ensure we are well positioned to capture growth opportunities when markets recover.

Underlying aftermarket revenue declined (9)%, with continued economic uncertainty driving slower customer upgrades and retrofits. In previous cycles postponed maintenance has typically lasted 6-9 months and this cycle is following a similar pattern. John Crane's large installed base and leading service offering positions it well to meet the pent-up demand for aftermarket repairs, maintenance and upgrades. Customer need for improving overall equipment effectiveness is driving increased commercial interest for our unique digital solutions, including John Crane Sense™. Aftermarket now represents 68% of John Crane's revenue (HY 2020: 67%).

Operating profit

(£m)	HY 2020 reported	Foreign exchange	Acquisitions & disposals	Restructuring costs	Underlying	HY 2021 reported
Headline operating profit	101	(4)	-	(0)	**(16)**	**81**
Headline operating margin	21.3%	(20)bps			**(130)bps**	**19.8%**

Headline operating profit of £81m decreased by (16)% on an underlying basis, reflecting the lower volumes and adverse programme mix. Headline operating profit declined (20)% on a reported basis, due to £(4)m of adverse foreign exchange. John Crane continues to make good progress on its restructuring actions, which are focused on enhancing its flexibility to withstand the cyclicality of its end markets and improve its efficiency. Some restructuring projects planned for the first half were delayed until later this year as we engage in the necessary consultation processes.

Headline operating margin was 19.8%, down (150)bps on a reported basis and (130)bps on an underlying basis. The difference between statutory and headline operating profit includes the net cost in relation to the provision for John Crane, Inc. asbestos litigation.

ROCE

ROCE was down (640)bps at 16.9%, due to the lower profitability in the last twelve months.

R&D

Cash R&D expenditure during the period represented 2.1% of sales, +20bps higher than last year. John Crane's innovation is primarily focused on enhancing efficiency, performance and sustainability by using materials science advancements, coatings and additive manufacturing. John Crane is also leveraging the Group's digital expertise to support the development of predictive diagnostic platforms and other innovative digital technologies. During the first half of the year, John Crane introduced several new technologies, including a booster and filter to support dry gas seals on turbo compressors and further product developments to reduce the effects of friction and extreme pressure on pipeline applications.

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. 48% of Smiths Detection's sales are derived from the aftermarket. Smiths Detection represents 30% of continuing Group revenue.

	HY 2021 £m	HY 2020 £m	Reported growth	Underlying growth
Revenue	350	378	(7)%	**(6)%**
Aviation	260	254	+2%	**+4%**
Other Security Systems	90	124	(27)%	**(27)%**
Headline operating profit	44	57	(23)%	**(21)%**
Statutory operating profit	33	44	(25)%	
Return on capital employed	6.3%	11.5%	(520)bps	
R&D cash costs as % of sales	7.6%	10.5%	(290)bps	

Revenue

(£m)	HY 2020 reported	Foreign exchange	Acquisitions & disposals	Underlying	HY 2021 reported
Revenue	378	(6)	1	(23)	**350**

The strength of Smiths Detection's market position and its leading technology drove its resilient performance, with revenue down (6)% on an underlying basis, and a continued strong performance in its Aviation segment.

The delivery of previously announced contract wins underpinned Original Equipment ('OE'), down (6)% on an underlying basis despite the significant declines in its markets. Aftermarket revenue also declined (6)% on an underlying basis, as service and maintenance levels reduced during the COVID-19 pandemic. Revenue was down (7)% on a reported basis, including £(6)m of adverse foreign exchange translation and £1m contribution from PathSensors Inc, a leading bio-technology solutions and environmental-testing company acquired in August 2020.

Revenue from Aviation increased +4% on an underlying basis as a result of the division's existing strong order book. Aviation is Smiths Detection's largest segment, representing 74% of total revenue. Deliveries included computed tomography ('CT') hold baggage systems for AENA in Spain and CT cabin baggage screening systems for the TSA in the US.

Despite a slower rate of new tenders, Smiths Detection continues to secure new contracts. It is announced today that Smiths Detection has been selected by London Heathrow to be the supplier of their new integrated checkpoint systems throughout the airport incorporating CT cabin baggage scanners and integrated lane and tray return technology with installation beginning later this year.

Other recent orders for its CT cabin baggage systems include Milan Airports Malpensa and Linate, Kuwait International Airport and Hamad International Airport (HIA) in Qatar. HIA also placed an order for ultraviolet light kits, capable of destroying up to 99.9% of microorganisms present on baggage trays at the security checkpoint. This new technology supports heightened hygiene standards which will be important as airports seek to restore the confidence of travellers and staff during and after the COVID-19 pandemic.

Revenue from Other Security Systems declined by (27)% on an underlying basis. This performance reflects both the strong comparator and a slowdown in urban security markets due to the pandemic. Smiths Detection secured new contracts with U.S. and French customs agencies and the Greek police force for mobile x-ray inspection systems. It also won an order from the Phoenix Suns Arena, Arizona for systems that include our digital iCMORE weapons detection technology; this enhances the arena's security and reduces the need for hands-on searches.

Smiths Detection continues to respond to the pandemic by driving its digital portfolio and investing selectively in chemical and biological detection capabilities that will support a safer post COVID-19 world. This response has been strengthened by the successful integration of PathSensors Inc which brought additional capability in the areas of environment monitoring, food safety and mail screening. Smiths Detection's environment monitoring tool, BioFlash®, has been proven to detect and identify the COVID-19 virus in the air. Further testing is underway to understand how this technology can be used in environments such as hospitals, schools and commercial buildings, representing an important future opportunity for the division. Smiths Detection also gained certification for a pathogen identifier that gives food and beverage companies a new, rapid solution to ensure food safety. There continues to be good demand for Smiths Detection's mail room screening solutions that can detect dangerous biological agents as well as other hazards.

Operating profit

(£m)	HY 2020 reported	Foreign exchange	Acquisitions & disposals	Restructuring costs	Underlying	HY 2021 reported
Headline operating profit	57	(1)	0	(0)	**(12)**	**44**
Headline operating margin	15.0%	+10bps		(10)bps	**(240)bps**	**12.6%**

Headline operating profit decreased (21)% on an underlying basis, reflecting programme volume and mix. Headline operating profit of £44m was down (23)% on a reported basis, including £(1)m adverse foreign exchange translation. Headline operating margin was 12.6%, down (240)bps on a reported and underlying basis. The difference between statutory and headline operating profit primarily reflects amortisation of acquired intangibles.

ROCE

ROCE decreased by (520)bps to 6.3%, impacted by reduced profitability.

R&D

Cash R&D expenditure was 7.6% of sales, (290)bps lower than last year. R&D excluding customer funding was 6.5% for HY 2021 (HY 2020: 7.9%). We continue to invest in the development of the next generation of detection devices for the defence market, new algorithms to improve the detection of dangerous goods for cargo applications and digital solutions to strengthen our aftermarket proposition to make people and infrastructure safer. Certain programmes are co-funded by strategic customers seeking next-generation solutions to security challenges.

Flex-Tek

Flex-Tek provides innovative components to heat and move fluids and gases for aerospace and industrial applications that support energy efficiency and improved air quality. 80% of Flex-Tek's revenue is derived from Industrials and 20% from the Aerospace sector. 46% of Flex-Tek's revenue comes from aftermarket sales. Flex-Tek represents 21% of continuing Group revenue.

	HY 2021 £m	HY 2020 £m	Reported growth	Underlying growth
Revenue	238	248	(4)%	**(1)%**
Industrials	190	171	+11%	**+14%**
Aerospace	48	77	(38)%	**(35)%**
Headline operating profit	44	46	(4)%	**+0%**
Statutory operating profit	38	25	52%	
Return on capital employed	17.9%	20.6%	(270)bps	
R&D cash costs as % of sales	0.5%	0.5%	0bps	

Revenue

(£m)	HY 2020 reported	Foreign exchange	Acquisitions & disposals	**Underlying**	**HY 2021 reported**
Revenue	248	(8)	-	**(2)**	**238**

Flex-Tek's revenue decreased (1)% on an underlying basis, as strong revenue growth in Industrials offset almost all of the downturn in Aerospace. Revenue declined (4)% on a reported basis, including £(8)m adverse foreign exchange translation.

Industrials underlying revenue was up +14%. This strong growth was driven by demand for our construction related products in the US, particularly for HVAC applications, where we continued to outperform the underlying market. Other drivers included good growth of our industrial heat applications. Aerospace revenue was down (35)%, driven by the sharp downturn in commercial aerospace, however defence aerospace remained more resilient.

Operating profit

(£m)	HY 2020 reported	Foreign exchange	Acquisitions & disposals	Restructuring costs	**Underlying**	**HY 2021 reported**
Headline operating profit	46	(2)	-	-	**0**	**44**
Headline operating margin	18.4%	(10)bps			**+20bps**	**18.5%**

Headline operating profit was flat on an underlying basis, with lower volumes offset by strong cost controls. Headline operating profit was down (4)% at £44m on a reported basis, including £(2)m adverse foreign exchange translation. Headline operating margin was up 10bps to 18.5%, on a reported basis. The difference between statutory and headline operating profit is due to amortisation of acquired intangible assets and provision for Titeflex Corporation subrogation claims.

In February 2021, the Group acquired Royal Metal Products LLC ("Royal Metal"), a leading manufacturer of residential and light commercial HVAC products for $107m. Royal Metal will be integrated into Flex-Tek with adjacent product offerings for the air distribution market and access to a larger customer base, including wholesalers. The acquisition will complement the organic growth that Flex-Tek is already driving through the development of innovative air distribution products that support improved energy efficiency and indoor air quality. For more information, please see note 18 of the condensed financial statements.

ROCE

ROCE decreased (270)bps to 17.9%, mainly driven by lower profitability in the second half of FY2020.

R&D

Cash R&D expenditure remained consistent at 0.5% of sales. R&D is focused on developing new products for construction, and an expanded product offering in aerospace.

Smiths Interconnect

Smiths Interconnect designs solutions for high-speed, secure connectivity in demanding applications for various end markets including defence, semiconductor test, medical, space, commercial aerospace, and rail. Smiths Interconnect represents 13% of continuing Group revenue.

	HY 2021 £m	HY 2020 £m	Reported growth	Underlying growth
Revenue	152	140	+9%	**+11%**
Headline operating profit	17	9	+89%	**+109%**
Statutory operating profit	16	7	+129%	
Return on capital employed	8.2%	10.1%	(190)bps	
R&D cash costs as % of sales	7.1%	8.2%	(110)bps	

Revenue

(£m)	HY 2020 reported	Foreign exchange	Acquisitions & disposals	Underlying	HY 2021 reported
Revenue	140	(4)	-	**16**	**152**

Smiths Interconnect delivered a strong first half performance with revenue up +11% on an underlying basis, reflecting the division's continued good momentum. Revenue increased by +9% on a reported basis, including £(4)m adverse foreign exchange translation.

This strong performance reflects high growth in the semiconductor test business, as customers increased capacity for the production of graphics chips and other microprocessors to support demand for laptops, data centres and games consoles, as well as new customer wins. There was also growth in the space and defence market segments from specific projects and satellite programmes. This growth was partly offset by a slight decline in the industrials market driven in part by the timing of medical orders.

During the period, Smiths Interconnect received significant orders for its space qualified products for space exploration projects and commercial satellite constellations. Smiths Interconnect is proud that its high-performance connectors are onboard NASA's six-wheeled science rover, Perseverance, which recently landed safely on Mars to begin the search for traces of ancient microbial life.

Operating profit

(£m)	HY 2020 reported	Foreign exchange	Acquisitions & disposals	Restructuring costs	Underlying	HY 2021 reported
Headline operating profit	9	(0)	-	(1)	**9**	**17**
Headline operating margin	6.5%			(90)bps	**+560bps**	**11.2%**

Headline operating profit increased +109% on an underlying basis, reflecting strong volumes and the benefits of restructuring actions. Headline operating profit was up +89% to £17m on a reported basis, including £(1)m of restructuring costs to further optimise the operational footprint. Headline operating margin was 11.2%, up +470bps on a reported basis and +560bps to 12.1% on an underlying basis, excluding the impact of the restructuring costs. The difference between statutory and headline operating profit reflects adjustments for amortisation of acquired intangibles.

ROCE

ROCE decreased (190)bps to 8.2%, driven by lower profitability in the second half of FY2020.

R&D

Cash R&D expenditure decreased to 7.1% of sales (6.7% excluding customer funded R&D, HY 2020: 7.4%), as we continued to invest in technology-led growth. R&D is focused on bringing to market new products that improve connectivity and product integrity in demanding operating environments. Product launches included the new Volta 180 wafer test solution for semiconductor test customers.

Smiths Medical - discontinued operations

Smiths Medical supplies quality, cost-effective medical devices and consumables vital to patient care globally. Its portfolio incorporates established brands, with strong positions in select segments of the Infusion Systems, Vascular Access, and Vital Care markets. 82% of Smiths Medical's sales are from consumable and disposable products.

	HY 2021 £m	HY 2020 £m	Reported growth	Underlying growth
Revenue	427	434	(2)%	**+0.2%**
Headline operating profit	89	94	(5)%	**+2%**
Statutory operating profit	88	83	+6%	
Return on capital employed	13.2%	13.2%	+0bps	
R&D cash costs as % of sales	5.6%	6.1%	(50)bps	

Accounting standards require the Group to stop charging depreciation and amortisation within Smiths Medical, from the point of reclassifcation as discontinued operations. For comparability purposes, depreciation and amortisation of £21m (HY 2020: £23m) have been included in the calculation of underlying measures.

Update on separation

The Group is committed to completing the separation of Smiths Medical by the end of the financial year with the primary focus on ensuring we maximise shareholder value. We are finalising key separation workstreams including governance, tax planning, debt structure, transaction documents and pensions.

Smiths Medical is pursuing a focused strategy to accelerate growth and drive enhanced performance to deliver the medium-term ambition to grow ahead of its markets, with operating margin in excess of 20% and attractive returns. The division's first half performance demonstrated an uninterrupted focus on these underlying improvement plans.

Revenue

(£m)	HY 2020 reported	Foreign exchange	Acquisitions & disposals	Underlying	HY 2021 reported
Revenue	434	(8)	-	**1**	**427**

Smiths Medical delivered a resilient performance with revenue of £427m, up 0.2% on an underlying basis. Good growth was held back by the impact of fewer elective procedures due to COVID-19. Revenue was down (2)% on a reported basis, including £(8)m of adverse foreign exchange translation.

Underlying revenue from Infusion Systems was up +5% driven by increased sales to alternate care environments such as emergency medical services, clinics, hospices and homes. Underlying revenue from Vital Care grew +2% with growth driven by tracheostomy tubes and respiratory products. Underlying revenue from Vascular Access decreased (6)% with good growth of syringe and needle products offset by the impact of fewer elective procedures as a result of COVID-19. Smiths Medical is successfully delivering on its agreement with the U.S. Government to expand syringe and needle device production to support COVID-19 vaccine efforts. Smiths Medical has also received large orders for vaccination devices for Australia and Japan to be delivered throughout the remainder of 2021.

Operating profit

(£m)	HY 2020 reported	Foreign exchange	Restructuring costs	Depreciation & amortisation	Underlying	HY 2021 reported
Operating profit	94	(2)	(3)	(2)	**2**	**89**
Operating margin	21.7%	(10)bps	(70)bps	(30)bps	**+30bps**	**20.9%**

Headline operating profit of £89m was up +2% on an underlying basis, reflecting the drive for enhanced performance. Headline operating profit was down (5)% on a reported basis, due to £(2)m of adverse foreign exchange and £(3)m of restructuring costs. Restructuring costs include site consolidation, as well as delayering and decentralisation to increase efficiency and effectiveness. Headline operating margin was up +30bps on an underlying basis, but down (80)bps to 20.9% on a reported basis due to restructuring charges.

The difference between statutory and headline operating profit is £1m of separation costs.

ROCE

ROCE remained at 13.2% in HY 2021.

R&D

Cash R&D expenditure was 5.6% of sales, down (50)bps year on year. Smiths Medical continues to invest in the development of innovative, commercially focused products across the portfolio to support long-term, sustainable growth. Product launches included:

- PharmGuard software enhancements for the CADD™ Solis Infusion Pump
- Comprehensive pain management solutions with new dedicated connectors
- A new endotracheal tube range
- DeltaVen Fast Flash, expanding our PIVC offering

Other financial matters

Risk management
The Group's principal risks and uncertainties and relevant mitigating activities were set out on pages 67-76 of the FY2020 Annual Report. In the view of the Board, the principal risks and uncertainties affecting the Group for the remaining six months of the financial year continue to be those set out briefly below and more fully in the Annual Report.

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

Technology: Differentiated new products and services are critical to our success. We may be unable to maintain technological differentiation or to meet customers' needs and may face disruptive innovation by a competitor.

Economy and geopolitics: COVID-19 has triggered a highly significant global economic downturn. In many sectors, demand has reduced. There is a likelihood that the impact on demand will be prolonged, especially in commercial aerospace. A global recession may also lead to an increase in bankruptcies of both customers and suppliers. Conversely, the crisis is opening up new opportunities, most obviously in Smiths Medical and Smiths Detection; and inorganic opportunities are likely to arise more frequently and at better values. Geopolitical tensions continue to rise, most notably between China and the US, but also affecting other Governments, which pose threats to the free movement of goods, capital and people.

Group Portfolio: Our strategy is predicated primarily on organic growth. However, acquisitions/divestments can also play a role in building and/or strengthening competitive positions. Acquisitions bring risk as well as opportunity. We may invest substantial funds and resources in acquisitions which fail to deliver on expectations – due to incorrect appraisal of the target and/or poor execution. The opposite risk is that (perhaps through an excess of caution) we miss out on opportunities to build market-leading positions and growth. Divestments also carry risk. We may divest an asset at the wrong time, or may not realise appropriate value for the asset. Separation may be complex and, if poorly executed, may impact the wider business.

Liquidity: COVID-19 has triggered a highly significant global economic downturn. In many sectors, demand has reduced, in some cases close to zero. We, along with our customers and suppliers, have also faced disruption to operations and higher costs. If disruption were to be deep and sustained over many months, our financial position could be eroded by lower revenues, higher costs and cash write-offs (e.g. non-payment by customers). We might not be able to rely on access to committed facilities, either through breach of our financial covenant or because lenders were unable to meet their obligations.

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

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

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

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

Integrated Supply chain: Timely, efficient supply of raw materials and purchased components is critical to our ability to deliver to our customers. Manufacturing and supply chain continuity are 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 – this applies to our own manufacturing sites and those of our key component suppliers.

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

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

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

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 European Union ("EU") pursuant to Regulation (EC) No 1606/2002 as it applies in the EU and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;

- 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:

Andy Reynolds Smith
Chief Executive

John Shipsey
Chief Financial Officer

25 March 2021

Independent review report to Smiths Group plc

Conclusion

We have been engaged by Smiths Group plc ("the Company") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2021 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 2021 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("EU") and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

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

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

Directors' responsibilities

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

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

Our responsibility

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

The purpose of our review work and to whom we owe our responsibilities

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

Michael Maloney

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

25 March 2021

Consolidated income statement (unaudited)

	Notes	Six months ended 31 January 2021 Headline £m	Six months ended 31 January 2021 Non-headline (note 3) £m	Six months ended 31 January 2021 Total £m	Six months ended 31 January 2020 – represented* Headline £m	Six months ended 31 January 2020 – represented* Non-headline (note 3) £m	Six months ended 31 January 2020 – represented* Total £m
Continuing operations							
Revenue	2	1,150	-	1,150	1,240	-	1,240
Operating costs	2	(984)	(23)	(1,007)	(1,054)	(41)	(1,095)
Operating profit/(loss)		**166**	**(23)**	**143**	**186**	**(41)**	**145**
Interest receivable		5	-	5	4	-	4
Interest payable		(26)	-	(26)	(30)	-	(30)
Other financing losses		-	(41)	(41)	-	(77)	(77)
Other finance income – retirement benefits		-	3	3	-	4	4
Finance costs		(21)	(38)	(59)	(26)	(73)	(99)
Continuing operations – profit/(loss) before taxation		**145**	**(61)**	**84**	**160**	**(114)**	**46**
Taxation	5	(41)	(21)	(62)	(43)	9	(34)
Continuing operations – profit/(loss) for the period		**104**	**(82)**	**22**	**117**	**(105)**	**12**
Discontinued operations							
Profit from discontinued operations	17	67	40	107	70	63	133
PROFIT/(LOSS) FOR THE PERIOD		**171**	**(42)**	**129**	**187**	**(42)**	**145**
Attributable to							
Smiths Group shareholders – continuing operations		103	(82)	21	116	(105)	11
Smiths Group shareholders – discontinued operations		67	40	107	70	63	133
Non-controlling interests		1	-	1	1	-	1
		171	**(42)**	**129**	**187**	**(42)**	**145**
Earnings per share	4						
Basic				32.3p			36.3p
Basic – continuing				5.3p			2.8p
Diluted				32.2p			36.2p
Diluted – continuing				5.3p			2.8p
Dividends per share (declared)	14			**11.7p**			-

* Results in the comparatives for the period ended 31 January 2020 have been represented to show operating costs on the face of the income statement; see note 2 ‘Operating costs’ for further details.

Consolidated statement of comprehensive income (unaudited)

	Notes	Six months ended 31 January 2021 £m	Six months ended 31 January 2020 £m
Profit for the period		**129**	**145**
Other comprehensive income			
Re-measurement of post retirement benefits assets and obligations	6	(94)	1
Taxation thereon		17	-
Other comprehensive income which will not be reclassified to the consolidated income statement		**(77)**	1
Other comprehensive income which will be reclassified and reclassifications			
Exchange losses		(104)	(257)
Fair value gains and reclassification adjustments:			
– on financial assets at fair value through other comprehensive income		3	1
– deferred in the period on cash-flow and net investment hedges		51	112
– reclassified to income statement on cash-flow and net investment hedges		1	(1)
Total other comprehensive expenditure		**(126)**	**(144)**
Total comprehensive income		**3**	1
Attributable to			
Smiths Group shareholders		3	1
Non-controlling interests		-	-
		3	**1**

Total comprehensive income attributable to Smiths Group shareholders arising from		
Continuing operations	(53)	(37)
Discontinued operations	56	38
	3	**1**

Consolidated balance sheet (unaudited)

	Notes	31 January 2021 £m	31 July 2020 £m
Non-current assets			
Intangible assets	7	1,492	1,564
Property, plant and equipment	8	212	218
Right of use assets	9	87	94
Financial assets – other investments		13	19
Retirement benefit assets	6	432	516
Deferred tax assets		97	102
Trade and other receivables		49	52
Financial derivatives		100	82
		2,482	**2,647**
Current assets			
Inventories		394	446
Current tax receivable		44	46
Trade and other receivables		551	627
Cash and cash equivalents	10	375	366
Financial derivatives		4	2
Assets held for distribution to owners	17	1,251	1,279
		2,619	**2,766**
Total assets		**5,101**	**5,413**
Current liabilities			
Financial liabilities:			
– borrowings	10	(19)	(10)
– lease liabilities	10	(27)	(31)
– financial derivatives		(3)	(4)
Provisions	12	(39)	(55)
Trade and other payables		(471)	(527)
Current tax payable		(74)	(79)
Liabilities held for distribution to owners	17	(257)	(295)
		(890)	**(1,001)**
Non-current liabilities			
Financial liabilities:			
– borrowings	10	(1,422)	(1,455)
– lease liabilities	10	(64)	(65)
Provisions	12	(264)	(276)
Retirement benefit obligations	6	(134)	(139)
Corporation tax payable		(4)	(5)
Deferred tax liabilities		(22)	(27)
Trade and other payables		(50)	(51)
		(1,960)	**(2,018)**
Total liabilities		**(2,850)**	**(3,019)**
Net assets		**2,251**	**2,394**
Shareholders' equity			
Share capital		149	149
Share premium account		363	361
Capital redemption reserve		6	6
Revaluation reserve		1	1
Merger reserve		235	235
Cumulative translation adjustments		571	674
Retained earnings		1,165	1,259
Hedge reserve		(260)	(312)
Total shareholders' equity		**2,230**	**2,373**
Non-controlling interest equity		21	21
Total equity		**2,251**	**2,394**

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 2020		510	242	674	1,259	(312)	2,373	21	2,394
Profit for the period		-	-	-	128	-	128	1	129
Other comprehensive income:									
– exchange losses net of recycling		-	-	(103)	-	-	(103)	(1)	(104)
– re-measurement of post-retirement benefits and related tax		-	-	-	(77)	-	(77)	-	(77)
– fair value gains and related tax		-	-	-	3	52	55	-	55
Total comprehensive income for the period		**-**	**-**	**(103)**	**54**	**52**	**3**	**-**	**3**
Transactions relating to ownership interests									
Issue of new equity shares		2	-	-	-	-	2	1	3
Purchase of own shares		-	-	-	(16)	-	(16)	-	(16)
Dividends:									
– equity shareholders	14	-	-	-	(138)	-	(138)	-	(138)
– non-controlling interests		-	-	-	-	-		(1)	(1)
Share-based payment		-	-	-	6	-	6	-	6
At 31 January 2021		**512**	**242**	**571**	**1,165**	**(260)**	**2,230**	**21**	**2,251**

	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 2019		508	242	878	1,115	(383)	2,360	21	2,381
Impact of adopting IFRS 16		-	-	-	(1)	-	(1)	-	(1)
Impact of adopting IFRIC 23		-	-	-	(4)	-	(4)	-	(4)
Profit for the period		-	-	-	144	-	144	1	145
Other comprehensive income:									
– exchange losses net of recycling		-	-	(256)	-	-	(256)	(1)	(257)
– re-measurement of post-retirement benefits and related tax		-	-	-	1	-	1	-	1
– fair value gains and related tax		-	-	-	1	111	112	-	112
Total comprehensive income for the period		**-**	**-**	**(256)**	**146**	**111**	**1**	**-**	**1**
Transactions relating to ownership interests									
Exercises of share options		2	-	-		-	2	-	2
Purchase of own shares		-	-	-	(18)	-	(18)	-	(18)
Dividends:									
– equity shareholders	14	-	-	-	(126)	-	(126)	-	(126)
– non-controlling interests		-	-	-	-	-	-	(1)	(1)
Share-based payment		-	-	-	6	-	6	-	6
At 31 January 2020		**510**	**242**	**622**	**1,118**	**(272)**	**2,220**	**20**	**2,240**

Retained earnings in the comparatives for the period to 31 January 2020 have been represented to show the cumulative foreign exchange translation differences as a separate component of equity.

Consolidated cash-flow statement (unaudited)

	Notes	Six months ended 31 January 2021 £m	Six months ended 31 January 2020 £m
Net cash inflow from operating activities	15	**262**	**187**
Cash-flows from investing activities			
Expenditure on capitalised development		(15)	(18)
Expenditure on other intangible assets		(7)	(8)
Purchase of property, plant and equipment		(33)	(29)
Income from financial assets		4	-
Acquisition of businesses		(5)	(24)
Net cash-flow used in investing activities		**(56)**	**(79)**
Cash-flows from financing activities			
Proceeds from issue of new equity shares		2	2
Purchase of own shares		(16)	(18)
Dividends paid to equity shareholders and non-controlling interests		(139)	(126)
Settlement of share awards in cash		-	(1)
Cash outflow from matured derivative financial instruments		(5)	(1)
Lease payments		(23)	(22)
Net cash-flow used in financing activities		**(181)**	**(166)**
Increase/(decrease) in cash and cash equivalents		**25**	**(58)**
Cash and cash equivalents at beginning of the period		366	289
(Increase)/decrease in cash held in disposal group		(4)	4
Exchange differences		(12)	(29)
Cash and cash equivalents at end of the period		**375**	**206**

Cash and cash equivalents at end of the period comprise:		
– cash at bank and in hand	193	179
– short-term deposits	182	27
	375	**206**

Notes to the condensed interim financial statements (unaudited)

1 Basis of preparation

The financial information for the period ended 31 January 2021 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 2020 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.

This condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU pursuant to Regulation (EC) No 1606/2002 as it applies in the EU.

The annual financial statements of the Group for the year ended 31 July 2021 will be prepared in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, this condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 July 2020 which were prepared in accordance with IFRSs as adopted by the EU.

The Directors have assessed the principal risks discussed on page 16. As part of this, they have modelled a severe but plausible downside scenario for COVID-19 (incorporating latest thinking on possible winter timing and severity of a COVID-19 resurgence), whereby the Group experiences:

(i) Continuation of challenges in FY2021:
- ongoing weakness (and no recovery) in end markets across all divisions for the second half of FY2021, resulting in a -5% decline on forecast revenues.

(ii) COVID-19 resurgence in FY2022:
- a significant increase in COVID-19, further lockdowns at the start of winter, and severe disruption to both customer demand and supply chain; and
- plant closures across most sites for a full two months (November/December 2021) with inventory build-up during shutdown, delays in customer receipts, and increases in customer defaults.

This scenario assumes a curtailment of dividend payments but no additional mitigating actions in terms of staff reductions, restructuring or government subsidies. Based on past experience the likelihood of this scenario is remote and throughout this severe but plausible downside scenario the Group continues to have significant liquidity headroom on existing facilities and against the Rolling Credit Facility financial covenant.

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 25 March 2021.

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 and the calculation of return on capital employed and credit metrics.

In addition, the Group reports underlying growth rates for sales and profit measures where the determination of adjustments requires judgement. Underlying growth excludes the effects of foreign exchange, acquisitions and disposals, restructuring charges, impairment of capitalised development and COVID-19 related balance sheet write-downs, by making the following adjustments:

- exclude acquisitions from the current period for the first 12 months of ownership;
- exclude the performance of divested businesses after the date of disposal from comparative period;
- exclude charges recognised due to the strategic restructuring programme in either period;
- exclude the impairment of capitalised development and COVID-19 related balance sheet write-downs from the comparative period; and
- retranslate the comparative to current year exchange rates before calculating growth measures.

2 Analysis of revenue, operating costs and segment information

Analysis by operating segment

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

- **John Crane** – mechanical seals, seal support systems, power transmission couplings and specialised filtration systems;
- **Smiths Detection** – sensors and systems that detect and identify explosives, narcotics, weapons, chemical agents, biohazards and contraband;
- **Flex-Tek** – engineered components, flexible hosing and rigid tubing which heat and move fluids and gases;
- **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; and
- **Smiths Medical** – infusion systems, vascular access products, patient airway and temperature management equipment and specialised devices in areas of diagnostics and emergency patient transport.

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.

Following the reclassification of the Smiths Medical business as a discontinued operation, the segmental information for the Smiths Medical division is disclosed in note 17.

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

Segment trading performance

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

						Six months ended 31 January 2020
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate costs £m	Total £m
Revenue	474	378	248	140	-	1,240
Divisional headline operating profit	101	57	46	9	-	213
Corporate headline operating costs	-	-	-	-	(27)	(27)
Headline operating profit/(loss)	**101**	**57**	**46**	**9**	**(27)**	**186**
Items excluded from headline measures (note 3)	(7)	(13)	(21)	(2)	2	(41)
Operating profit/(loss) for the period	**94**	**44**	**25**	**7**	**(25)**	**145**
Headline operating margin	21.3%	15.0%	18.4%	6.5%	-	15.0%

Segment assets and liabilities

Segment assets

						31 January 2021
	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	136	122	62	48	21	389
Inventory, trade and other receivables	343	377	133	119	22	994
Segment assets	**479**	**499**	**195**	**167**	**43**	**1,383**

						31 July 2020
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Property, plant, equipment, development projects, other intangibles and investments	143	125	64	49	26	407
Inventory, trade and other receivables	395	438	144	136	11	1,124
Segment assets	**538**	**563**	**208**	**185**	**37**	**1,531**

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 2021
Divisional liabilities	(120)	(263)	(59)	(46)	-	(488)
Corporate and non-headline liabilities	-	-	-	-	(336)	(336)
Segment liabilities	**(120)**	**(263)**	**(59)**	**(46)**	**(336)**	**(824)**

	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
						31 July 2020
Divisional liabilities	(142)	(288)	(60)	(55)	-	(545)
Corporate and non-headline liabilities	-	-	-	-	(364)	(364)
Segment liabilities	**(142)**	**(288)**	**(60)**	**(55)**	**(364)**	**(909)**

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 2021 £m	31 July 2020 £m	31 January 2021 £m	31 July 2020 £m
Segment assets and liabilities	**1,383**	**1,531**	**(824)**	**(909)**
Goodwill and acquired intangibles	1,415	1,489	-	-
Derivatives	104	84	(3)	(4)
Current and deferred tax	141	148	(100)	(111)
Retirement benefit assets and obligations	432	516	(134)	(139)
Cash and borrowings	375	366	(1,532)	(1,561)
Assets and liabilities held for distribution to owners	1,251	1,279	(257)	(295)
Statutory assets and liabilities	**5,101**	**5,413**	**(2,850)**	**(3,019)**

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 £787m (31 July 2020: £787m), and eliminate post-retirement benefit assets and liabilities and litigation provisions relating to non-headline items, both net of related tax, and net debt. See note 19 for additional details.

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

	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Total £m
					31 January 2021
Average divisional capital employed	988	1,103	452	415	2,958
Average capital employed – assets held for distribution to owners					1,355
Average corporate capital employed					13
Average total capital employed					**4,326**
Return on capital employed	**16.9%**	**6.3%**	**17.9%**	**8.2%**	**11.2%**

	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Total £m
					31 January 2020
Average divisional capital employed	962	1,125	469	380	2,936
Average capital employed – assets held for distribution to owners					1,290
Average corporate capital employed					(70)
Average total capital employed					**4,156**
Return on capital employed	**23.3%**	**11.5%**	**20.6%**	**10.1%**	**14.7%**

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 2021	130	280	410
Revenue six months ended 31 January 2020	154	320	474

Smiths Detection	Aviation £m	Other security systems £m	Total £m
Revenue six months ended 31 January 2021	260	90	350
Revenue six months ended 31 January 2020	254	124	378

Flex-Tek	Aerospace £m	Industrials £m	Total £m
Revenue six months ended 31 January 2021	48	190	238
Revenue six months ended 31 January 2020	77	171	248

Smiths Interconnect	Components, Connectors & Subsystems £m
Revenue six months ended 31 January 2021	152
Revenue six months ended 31 January 2020	140

The Group's statutory revenue is analysed as follows:

	Six months ended 31 January 2021 £m	Six months ended 31 January 2020 Restated* £m
Sale of goods recognised at a point in time	840	905
Sale of goods recognised over time	24	23
Services recognised over time	286	312
Revenue – continuing operations	**1,150**	**1,240**

* Following a review of the Group's revenue disclosures, the comparative period ended 31 January 2020 has been adjusted to reclassify £74m of repairs revenue from 'Sale of goods recognised at a point in time' to 'Services recognised over time'. This reclassification has no impact on total revenue, profit or net assets recorded in the comparative period ended 31 January 2020.

Operating costs

The Group's headline operating costs for continuing operations are analysed as follows:

	Six months ended 31 January 2021 £m	Six months ended 31 January 2020 £m
Direct materials, labour, production and distribution overheads	709	743
Selling costs	105	126
Administrative expenses	170	185
Headline operating costs	**984**	**1,054**

Income statement representation

Following a review of the Group's external and internal reporting requirements, management have decided to present the consolidated income statement in a revised format disclosing operating costs on the face of the income statement instead of cost of sales, sales and distribution costs and administrative expenses separately.

The results in the comparatives for the period ended 31 January 2020 have been represented accordingly. Management consider that the revised income statement presentation provides users of the financial statements with more accessible, reliable and relevant information about the Group's financial performance.

Strategic restructuring programme

In June 2020 the Group commenced a strategic restructuring programme to ensure that the Group emerges stronger from the COVID-19 crisis and better able to deliver consistent outperformance. In the current period, restructuring costs of £1m (31 January 2020: £nil) were recognised in continuing operations and £3m (31 January 2020: £nil) in discontinued operations.

The table below shows a reconciliation of headline operating profit excluding restructuring costs to headline operating profit for continuing operations. See note 19 for further detail.

	Six months ended 31 January 2021 £m	Six months ended 31 January 2020 £m
Headline operating profit	166	186
Strategic restructuring costs recognised in headline administrative expenses	(1)	-
Headline operating profit excluding restructuring costs	**167**	**186**

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

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

	Six months ended 31 January 2021 £m	Six months ended 31 January 2020 £m
Post-acquisition integration costs and fair value adjustment unwind		
Integration programmes	(1)	(3)
Acquisition related transactions costs		
Business acquisition costs	-	(2)
Legacy pension scheme arrangements		
Guaranteed Minimum Pension (GMP) equalisation	(6)	-
Settlement gains on post-retirement benefit schemes	-	8
Non-headline litigation provision movements		
Provision for John Crane, Inc. asbestos litigation	(2)	(11)
Cost recovery for John Crane, Inc. asbestos litigation	6	-
Movement in provision held against Titeflex Corporation subrogation claims	7	(5)
Other items		
Amortisation of acquisition related intangible assets	(27)	(28)
Non-headline items in operating profit – continuing operations	**(23)**	**(41)**

Post-acquisition integration costs and fair value adjustment unwind

The £1m (31 January 2020: £3m) of integration programme costs relate to defined projects for the integration of United Flexible into the existing Flex-Tek business. Integration programme costs include the direct costs of organisational change, site rationalisation and entity closure costs. The United Flexible integration programme is due to conclude in calendar year 2021. Integration costs are recognised as non-headline items because they are considered to be non-operational in nature and bear no relation to the ongoing performance of the acquired businesses.

Acquisition related transaction costs

In the prior year the £2m of business acquisition costs related to the acquisition of Reflex Photonics Inc. which completed in October 2019. These costs do not include the cost of employees working on transactions, and are reported as non-headline because they are dependent on the level of acquisition and disposal activity in the period.

Legacy pension scheme arrangement

In the current year £6m of past service costs (31 January 2020: £nil) were recognised following a further ruling from the UK High Court on GMP equalisation. In the prior year the £8m settlement gain on post-retirement benefit schemes is due to changes to the US post-retirement healthcare plans as a result of the US Patient Protection and Affordable Care Act. These are recognised as non-headline as they are non-recurring and relate to legacy pension schemes.

Non-headline litigation provision movements

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

- The £2m (31 January 2020: £11m) charge in respect of John Crane, Inc. asbestos litigation is principally due to litigation management expenses and discount rate movements following an increase in US treasury bond yields. The costs recovered via insurer settlements in the current period were £6m. See note 12 for further details; and
- A £7m credit (31 January 2020: £5m charge) has been recognised by Titeflex Corporation in respect of changes to the estimated cost of future claims. The current year credit is driven by discount rate movements. See note 12 for further details.

Other items

Acquisition related intangible asset amortisation costs of £27m (31 January 2020: £28m) were recognised in the current period. This is considered to be a non-headline item on the basis that these charges result from acquisition accounting and do not relate to current trading activity.

Non-headline finance costs items

The non-headline items included in finance costs for continuing operations are as follows:

	Six months ended 31 January 2021 £m	Six months ended 31 January 2020 £m
Unwind of discount on provisions	(1)	(3)
Other finance income – retirement benefits	3	4
Foreign exchange loss on intercompany loan with discontinued operations	(38)	(68)
Other financing losses	(2)	(6)
Non-headline items in finance costs – continuing operations	**(38)**	**(73)**
Continuing operations – non-headline loss before taxation	**(61)**	**(114)**

The financing elements of non-headline legacy liabilities, including the £1m (31 January 2020: £3m) unwind of discount on provisions, are excluded from headline finance costs because these provisions were originally recognised as non-headline and this treatment has been maintained for ongoing costs and credits.

Other finance income comprises £3m (31 January 2020: £4m) 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.

Foreign exchange gains or losses on intercompany financing between Smiths Medical and the continuing group are recognised on the face of the income statement as a non-headline item due to the classification of Smiths Medical as a discontinued operation. The £38m foreign exchange loss in continuing operations (31 January 2020: £68m) matches the foreign exchange gain in discontinued operations. This is excluded from headline net finance costs as these fair value movements are non-operational in nature and are purely a consequence of the presentational requirements for discontinued operations.

Other financing losses represent fair value movements on financial instruments and foreign exchange movements on borrowings, which the Group excludes from headline net finance costs. The current period loss of £2m (31 January 2020: £6m) is principally due to hedge ineffectiveness on the Group's 2027 Eurobonds, which will reverse over the remaining period to maturity. These fair value movements are excluded from headline net finance costs when the following requirements are met:

- Fair value gains and losses on the interest element of derivative financial instruments hedging the Group's net debt exposures are excluded from headline, as they will either reverse over time or be matched in future periods by interest charges.
- Fair value gains and losses on the currency element of derivative financial instruments hedging the Group's net debt and exposures, and exchange gains and losses on borrowings are excluded, as the relevant foreign exchange gains and losses on the commercially hedged items are recognised as a separate component of other comprehensive income, in accordance with the Group's foreign currencies accounting policy.

Non-headline taxation items

The £21m non-headline taxation charge for continuing operations (31 January 2020: £9m credit) represents the tax attributable to the non-headline items above and the write-off of UK deferred tax, the latter matched by a credit in other comprehensive income.

Non-headline items for discontinued operations

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

	Six months ended 31 January 2021 £m	Six months ended 31 January 2020 £m
Acquisition and disposal related transactions costs and provision releases		
Medical separation costs	(1)	(11)
Non-headline finance costs items		
Foreign exchange gain on intercompany loan with parent	38	68
Non-headline taxation items		
Taxation on non-headline profit	3	6
Non-headline items in profit from discontinued operations	**40**	**63**
Profit for the period – non-headline items for continuing and discontinued operations	**(42)**	**(42)**

The £1m of Medical separation costs (31 January 2020: £11m) represent incremental costs incurred by the Group to separate Smiths Medical. This cost has been reported as non-headline as the full year effect of the transaction on the Group's financial statements is both material and non-recurring.

The £38m foreign exchange gain on intercompany loan with parent (31 January 2020: £68m) directly offsets the foreign exchange loss in continuing operations. This is excluded from headline net finance costs as these fair value movements are non-operational in nature and are purely a consequence of the presentational requirements for discontinued operations.

4 Earnings per share

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

	Six months ended 31 January 2021 £m	Six months ended 31 January 2020 £m
Profit attributable to equity shareholders for the period		
- Continuing	21	11
- Discontinuing	107	133
Total	128	144
Average number of shares in issue during the period	396,331,156	396,181,277
Statutory earnings per share continuing operations – basic	5.3	2.8
Statutory earnings per share continuing operations – diluted	5.3	2.8
Statutory earnings per share total – basic	32.3	36.3
Statutory earnings per share total – diluted	32.2	36.2

Diluted earnings per share are calculated by dividing the profit attributable to ordinary shareholders by 397,355,869 (31 January 2020: 397,628,603) 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 2021			Six months ended 31 January 2020		
	£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	128	32.3	32.2	144	36.3	36.2
Exclude: Non-headline items (note 3)	42			42		
Headline earnings per share	170	42.9	42.8	186	46.9	46.8
Profit from continuing operations attributable to equity shareholders of the Parent Company	21	5.3	5.3	11	2.8	2.8
Exclude: Non-headline items (note 3)	82			105		
Headline earnings per share – continuing operations	103	26.0	25.9	116	29.3	29.2

5 Taxation

The interim tax rate of 74.4% (31 January 2020: 74.3%) is calculated by applying the estimated effective headline tax rate for continuing operations of 28.0% (31 January 2020: 27.0%) for the year ended 31 July 2021 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 2021		Six months ended 31 January 2020	
	Continuing operations £m	Tax rate	Continuing operations £m	Tax rate
Headline tax rate				
Headline profit before taxation	145		160	
Taxation on headline profit	(41)	28.0%	(43)	27.0%
Adjustments				
Non-headline items excluded from profit before taxation (note 3)	(61)		(114)	
Taxation on non-headline items and non-headline tax adjustment	(21)		9	
Total interim tax rate				
Profit before taxation	84		46	
Taxation	(62)	74.4%	(34)	74.3%

The changes in the value of the net tax asset/(liability) in the period were:

	Current tax £m	Deferred tax £m	Net tax balance £m
At 31 July 2020	(38)	75	37
Foreign exchange gains and losses	1	(3)	(2)
Charge to income statement	(45)	(17)	(62)
Credit to equity	-	20	20
Tax paid	48	-	48
At 31 January 2021	**(34)**	**75**	**41**

Developments in the Group tax position

Franked Investment Income Group Litigation Order (FII GLO)

The Group joined the FII GLO litigation against HM Revenue & Customs (HMRC) in 2009. The court actions were first filed in 2003 and the Group joined the GLO shortly before the then understood latest date by which it was "in time" to make a claim. Since then there have been about 12 years of litigation in the both the EU and English Courts. In November 2020 the Supreme Court, in allowing HMRC's appeal, decided that the time limit for claims should be determined as 6 years from when the claimants, including the Group knew, or by undertaking reasonable diligence could have known, that they had a valid claim. The case has now returned to the High Court to determine the actual date on the facts of the matter. This is expected to add at least three years to the litigation.

In the light of this decision, management's view of the likelihood of a successful outcome in the Courts has changed. So rather than incurring the costs and management time in continuing with litigation, with a worst case involving an outflow of cash of around £2m, the Group has chosen to settle with HMRC. The settlement amount of £0.8m was paid to the Group on 11 February 2021. This amount is in addition to £2m which the Group received in FY2018. The Group has now withdrawn from the FII GLO.

European Commission Investigation regarding Claims for Partial (75%) Exemption for Profits from qualifying loan relationships under Chapter 9 FA2012

The Group continues to disclose a contingent liability in relation to the European Commission decision that the UK's tax rules constituted illegal State Aid. The maximum amount has slightly reduced from £15m to £14m as a result of clarification of applicable interest rates. In June 2019 the UK government appealed to the General Court of the EU against the decision. Many UK based international companies have also appealed the decision, including the Group in October 2019. Nonetheless, the UK Government is required to commence recovery from beneficiaries of the alleged aid in line with the European Commission's decision. The recovery process by the UK tax authorities is underway and HMRC has begun issuing charging notices. The Group has not yet received a charging notice. If it does, UK tax authority guidance states that tax reliefs (including losses) can be taken into account in computing the amount of the State Aid to be paid. These reliefs should mean there is no material cash outlay for the Group, even if the European Commission's decision is ultimately upheld. Nevertheless, the use of these attributes is not certain and the estimated maximum potential liability (which includes both tax and interest) is £14m. Based on our current assessment, no provision is being made in respect of this issue.

6 Post retirement benefits

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

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

The amounts recognised in the balance sheet are as follows:

	31 January 2021 £m	31 July 2020 £m
Market value of scheme assets	4,379	4,582
Present value of funded scheme liabilities	(3,957)	(4,078)
Surplus	422	504
Unfunded pension plans	(121)	(123)
Post-retirement healthcare	(8)	(9)
Present value of unfunded obligations	(129)	(132)
Net retirement benefit asset	**293**	**372**
Post-retirement assets	432	516
Post-retirement liabilities	(134)	(139)
Liabilities held for distribution to owners (see note 17)	(5)	(5)
Net retirement benefit asset	**293**	**372**

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

	31 January 2021		31 July 2020	
	UK	US	UK	US
Rate of increase for active deferred members	3.9%	n/a	3.8%	n/a
Rate of increase in pensions in payment	3.0%	n/a	2.9%	n/a
Rate of increase in deferred pensions	3.0%	n/a	2.9%	n/a
Discount rate	1.5%	2.7%	1.4%	2.4%

The methods for setting the mortality assumptions for the UK schemes are consistent with the 31 July 2020 valuation. The US schemes have adopted the mortality improvement scale MP-2020 (31 July 2020: MP-2019).

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

	31 January 2021 – £m			31 July 2020 – £m		
	SIPS	TIGPS	US schemes	SIPS	TIGPS	US schemes
Present value of funded scheme liabilities						
– Active deferred members	(43)	(30)	(83)	(44)	(61)	(95)
– Deferred members	(831)	(638)	(124)	(961)	(593)	(138)
– Pensioners	(1,256)	(816)	(74)	(1,178)	(866)	(81)
Present value of funded scheme liabilities	(2,130)	(1,484)	(281)	(2,183)	(1,520)	(314)
Market value of scheme assets	2,377	1,669	280	2,466	1,754	311
Surplus/(deficit)	**247**	**185**	**(1)**	**283**	**234**	**(3)**

Contributions

Group contributions to the funded defined benefit pension plans in the period totalled £16m (31 January 2020: £12m), comprising regular contributions of £6m (31 January 2020: £6m) to SIPS, £6m (31 January 2020: £6m) to TIGPS and £4m (31 January 2020: £nil) to funded US Schemes. In addition, £3m (31 January 2020: £4m) was paid to unfunded defined benefit pension schemes and post-retirement healthcare plans. No additional contributions to support risk reduction programmes were made in the current or previous period.

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

	Six months ended 31 January 2021 £m	Year ended 31 July 2020 £m
At beginning of period	372	311
Foreign exchange rate movements	3	2
Current service cost	(1)	(3)
Scheme administration costs	(3)	(5)
Past service cost, curtailments, settlements	(6)	8
Finance income – retirement benefits	3	7
Contributions by employer	19	33
Actuarial gain/(loss)	(94)	19
Net retirement benefit asset at end of period	**293**	**372**

Past service costs, curtailments and settlements

The past service cost of £29m was recognised in the year ended 31 July 2019 to reflect the estimated cost of equalising benefits in the Group's UK schemes, in line with the requirements of the court judgment on 26 October 2018 in the case involving Lloyds Banking Group and relating to Guaranteed Minimum Pensions. In the current period, a further past service cost of £6m has been recognised in relation to the subsequent court judgment addressing the need to equalise historical transfer values. In the prior period the Group recognised a curtailment gain of £8m due to changes to the US post-retirement healthcare plans.

Buy-in agreements

In September 2020 TIGPS purchased a buy-in annuity policy with Aviva for a premium of approximately £141m. An actuarial loss of £23m was recognised in the period as a result of this buy-in agreement. In October 2020 SIPS purchased a buy-in annuity policy with Canada Life for a premium of approximately £146m. An actuarial loss of £17m was recognised in the period as a result of this buy-in agreement. Across SIPS and TIGPS, approximately 70% of pensioner liabilities are now de-risked through 10 bulk annuities.

7 Intangible assets

		Goodwill £m	Development costs £m	Acquired intangibles £m	Software, patents and intellectual property £m	Total £m
Cost						
At 31 July 2020		1,254	155	546	174	2,129
Exchange adjustments		(42)	(4)	(22)	(4)	(72)
Business combinations	13	3	-	2	-	5
Additions		-	4	-	6	10
At 31 January 2021		**1,215**	**155**	**526**	**176**	**2,072**
Amortisation						
At 31 July 2020		62	112	249	142	565
Exchange adjustments		(2)	(2)	(10)	(4)	(18)
Charge for the period		-	3	27	3	33
At 31 January 2021		**60**	**113**	**266**	**141**	**580**
Net book value at 31 January 2021		**1,155**	**42**	**260**	**35**	**1,492**
Net book value at 31 July 2020		1,192	43	297	32	1,564

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 2020	175	383	133	691
Exchange adjustments	(1)	(13)	(3)	(17)
Additions	-	17	1	18
Disposals	-	(5)	(3)	(8)
At 31 January 2021	**174**	**382**	**128**	**684**
Depreciation				
At 31 July 2020	102	261	110	473
Exchange adjustments	(1)	(11)	(2)	(14)
Charge for the period	4	12	3	19
Disposals	-	(3)	(3)	(6)
At 31 January 2021	**105**	**259**	**108**	**472**
Net book value at 31 January 2021	**69**	**123**	**20**	**212**
Net book value at 31 July 2020	73	122	23	218

9 Right of use assets

	Properties £m	Vehicles £m	Equipment £m	Total £m
Cost				
At 31 July 2020	110	14	1	125
Exchange adjustments	(2)	-	-	(2)
Recognition of right of use assets	8	1	-	9
Modification of right of use assets	1	-	-	1
At 31 January 2021	**117**	**15**	**1**	**133**
Depreciation				
At 31 July 2020	26	5	-	31
Charge for the period	12	3	-	15
At 31 January 2021	**38**	**8**	**-**	**46**
Net book value at 31 January 2021	**79**	**7**	**1**	**87**
Net book value at 31 July 2020	84	9	1	94

10 Borrowings and net 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 2021 £m	31 July 2020 £m
Cash and cash equivalents		
Net cash and cash equivalents	**375**	**366**
Short-term borrowings		
Lease liabilities	(27)	(31)
Interest accrual	(19)	(10)
	(46)	**(41)**
Long-term borrowings		
$400m 3.625% US$ Guaranteed notes 2022	(294)	(308)
€600m 1.25% Eurobond 2023	(536)	(546)
€650m 2.00% Eurobond 2027	(592)	(601)
Lease liabilities	(64)	(65)
	(1,486)	**(1,520)**
Borrowings	**(1,532)**	**(1,561)**
Derivatives managing interest rate risk and currency profile of the debt	**100**	**82**
Net debt (excludes net debt of £18m in businesses held for distribution (31 July 2020: £28m))	**(1,057)**	**(1,113)**

Total Group net debt including net debt in businesses held for distribution is £1,075m (31 July 2020: £1,141m).

Movements in net debt

	Cash and deposits £m	Short-term borrowings £m	Long-term borrowings £m	Interest rate and cross currency swaps £m	Net debt £m
At 31 July 2020	366	(41)	(1,520)	82	(1,113)
Foreign exchange gains and losses	(12)	(1)	33	-	20
Net cash inflow from continuing operations*	21	-	-	-	21
Net movement arising from lease modifications	-	-	(12)	-	(12)
Fair value movement from interest rate hedging	-	-	3	-	3
Revaluation of derivative contracts	-	-	-	18	18
Finance costs recognised in income statement**	-	(15)	(1)	-	(16)
Interest paid	-	5	-	-	5
Payment of lease liabilities	-	17	-	-	17
Reclassification to short-term	-	(11)	11	-	-
At 31 January 2021	**375**	**(46)**	**(1,486)**	**100**	**(1,057)**

* The £21m of net cash inflow from continuing operations excludes £4m of net cash inflow from discontinued operations. Net cash inflow for the total Group including discontinued operations was £25m.
** The Group has also incurred £5m of bank charges that are expensed when paid and are not included in net debt.

11 Fair value of financial instruments

	Basis for determining fair value	As at 31 January 2021 At amortised cost £m	At fair value through profit or loss £m	At fair value through OCI £m	Total carrying value £m	Total fair value £m	As at 31 July 2020 At amortised cost £m	At fair value through profit or loss £m	At fair value through OCI £m	Total carrying value £m	Total fair value £m
Financial assets											
Other investments	A	-	7	-	7	7	-	11	-	11	11
Other investments*	E	-	-	6	6	6	-	-	8	8	8
Cash and cash equivalents	A	259	116	-	375	375	206	160	-	366	366
Trade and other financial receivables	A/B	600	-	-	600	600	679	-	-	679	679
Derivative financial instruments	B	-	104	-	104	104	-	84	-	84	84
Total financial assets		**859**	**227**	**6**	**1,092**	**1,092**	**885**	**255**	**8**	**1,148**	**1,148**
Financial liabilities											
Trade and other financial payables	A	(521)	-	-	(521)	(521)	(578)	-	-	(578)	(578)
Lease liabilities (long and short term)	C	(91)	-	-	(91)	(91)	(96)	-	-	(96)	(96)
Other short-term borrowings	D	(19)	-	-	(19)	(19)	(10)	-	-	(10)	(10)
Other long-term borrowings	D	(1,422)	-	-	(1,422)	(1,471)	(1,455)	-	-	(1,455)	(1,473)
Derivative financial instruments	B	-	(3)	-	(3)	(3)	-	(4)	-	(4)	(4)
Total financial liabilities		**(2,053)**	**(3)**	-	**(2,056)**	**(2,105)**	**(2,139)**	**(4)**	-	**(2,143)**	**(2,161)**

* Fair value gains and losses in this category of financial assets are recognised in other comprehensive income.

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 2 as defined by IFRS 13 Fair Value Measurement).

B 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).

C 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).

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 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

12 Provisions and contingent liabilities

	Headline	Non-headline and legacy			Total
	£m	John Crane, Inc. litigation £m	Titeflex Corporation litigation £m	Other £m	£m
Current liabilities	12	26	13	4	55
Non-current liabilities	2	205	53	16	276
At 31 July 2020	**14**	**231**	**66**	**20**	**331**
Exchange adjustments	(1)	(10)	(3)	(1)	(15)
Provision charged	4	1	-	-	5
Provision released	(1)	-	(7)	-	(8)
Unwind of provision discount	-	1	-	-	1
Utilisation	(3)	(6)	(2)	-	(11)
At 31 January 2021	**13**	**217**	**54**	**19**	**303**
Current liabilities	12	15	9	3	39
Non-current liabilities	1	202	45	16	264
At 31 January 2021	**13**	**217**	**54**	**19**	**303**

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 2021 there are warranty and product liability provisions of £11m (31 July 2020: £13m). 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 United States 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 2021	31 July 2020
JCI claims experience		
Claims against JCI that have been dismissed	304,000	297,000
Claims which JCI is currently a defendant in	22,000	25,000
Cumulative final judgments, after appeals, against JCI since 1979	149	149
Cumulative value of awards ($m) since 1979	175	175

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 United States. JCI meets its asbestos defence costs directly. The calculation of the provision does not take account of any recoveries from insurers. See note 3 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 provision utilised in the period is lower than previous periods, principally due to court closures and trial delays arising from the COVID-19 pandemic.

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

	Six months ended 31 January 2021 £m	Year ended 31 July 2020 £m
John Crane, Inc. litigation provision		
Gross provision	224	235
Discount	(7)	(4)
Discounted provision	217	231
Taxation	(55)	(59)
Discounted post-tax provision	**162**	**172**
Operating profit (credit)/charge		
Increased provision for adverse judgments and legal defence costs	4	14
Change in US risk free rates	(3)	16
Subtotal – items charged to the provision	1	30
Litigation management expense - legal fees in connection with litigation against insurers and defence strategy	1	1
Recoveries from insurers	(6)	(3)
Total operating profit (credit)/charge	**(4)**	**28**
Cash-flow		
Provision utilisation - legal defence costs and adverse judgements	(6)	(23)
Litigation management expense	-	(1)
Recoveries from insurers	3	3
Net cash outflow	**(3)**	**(21)**

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 £203m and future spend at the 95th percentile of £259m (31 July 2020: £214m and £271m, respectively). Statistical analysis of the distribution of these outcomes indicates that there is a 50% probability that the total future spend will fall between £212m and £233m (31 July 2020: between £222m and £244m), compared with the gross provision value of £224m (31 July 2020: £235m).

Sensitivity of the projections to changes in the time horizon used

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

The projections use a 10 year time horizon. Reducing the time horizon by one year would reduce the discounted pre-tax provision by £18m (31 July 2020: £20m) and reducing it by five years would reduce the discounted pre-tax provision by £98m (31 July 2020: £106m).

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 2020: £17m); extending it by five years would increase the discounted pre-tax provision by £61m (31 July 2020: £69m). 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 the use of recent claims history due to the uncertain impact that the COVID-19 lockdown has had on the number of claims.

The provision of £54m (31 July 2020: £66m) 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 2021 £m	31 July 2020 £m
Gross provision	79	86
Discount	(25)	(20)
Discounted pre-tax provision	**54**	**66**
Taxation	(13)	(16)
Discounted post-tax provision	**41**	**50**

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 £4m (31 July 2020: £6m) lower, and if the benefit were 0.5% lower, the discounted pre-tax provision would be £5m (31 July 2020: £7m) 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 £5m (31 July 2020: £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 £4m (31 July 2020: £3m), also with an equivalent fall for a reduction of 10%.

Other non-headline and legacy

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

13 Acquisitions

On 2 August 2020, Smiths Detection completed the acquisition of 100% of the share capital of PathSensors Inc for an enterprise value of US$7.4m. PathSensors Inc is a leading biotechnology solutions and environmental testing company providing, high-speed, high-sensitivity pathogen detection and biothreat prevention. This acquisition brings new technology to Smiths Detection to strengthen its position in the markets in which it operates.

Goodwill represents the expected synergies from the strategic fit of the acquisition and the value of the expertise in the workforce. From the date of acquisition to 31 January 2021, PathSensors Inc contributed £1m to revenue and less than £1m to profit before taxation. If the Group had acquired this business at the beginning of the financial year, the acquisition would have contributed the same value to revenue and profit.

The provisional balance sheet at the date of acquisition is:

	PathSensors Inc £m
Non-current assets - acquired intangible assets	2
Total identifiable net assets	2
Goodwill	3
Total	**5**
Satisfied by:	
Cash paid during the period	5
Total consideration	**5**

These provisional fair values contain amounts which will be finalised no later than one year after the date of acquisition. Provisional amounts have been included at 31 January 2021 as a consequence of the timing and complexity of the acquisition.

14 Dividends

The following dividends were declared and paid in the period:

	Six months ended 31 January 2021 £m	Six months ended 31 January 2020 £m
Dividends paid in the period	**138**	**126**

In the current period a total dividend of 35.0p, comprising a delayed interim dividend of 11.0p and an ordinary final dividend of 24.0p, was paid on 20 November 2020. In the comparative period an ordinary final dividend of 31.8p was paid in respect of FY2019.

An interim dividend of 11.7 pence per share was declared by the Board on 25 March 2021 and will be paid to shareholders on 14 May 2021. 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 9 April 2021.

15 Cash-flow from operating activities

	Six months ended 31 January 2021			Six months ended 31 January 2020		
	Headline £m	Non-headline (note 3) £m	Total £m	Headline £m	Non-headline (note 3) £m	Total £m
Operating profit/(loss) - continuing operations	166	(23)	143	186	(41)	145
- discontinued operations	89	(1)	88	94	(11)	83
Amortisation of intangible assets	6	27	33	7	28	35
Depreciation of property, plant and equipment	19	-	19	20	-	20
Depreciation of right of use assets	15	-	15	16	-	16
Loss on disposal of property, plant and equipment	1	-	1	1	-	1
Loss on disposal of businesses	-	-	-	-	1	1
Share-based payment expense	6	-	6	8	-	8
Retirement benefits	2	(12)	(10)	4	(24)	(20)
Distribution from trading investment	4	-	4	-	-	-
Recycling of cash flow hedge reserve	1	-	1	-	-	-
Decrease/(increase) in inventories	35	-	35	(98)	-	(98)
Decrease/(increase) in trade and other receivables	88	(2)	86	149	-	149
Decrease in trade and other payables	(73)	(4)	(77)	(78)	-	(78)
(Decrease)/increase in provisions	(3)	(14)	(17)	(2)	3	1
Cash generated from operations	**356**	**(29)**	**327**	**307**	**(44)**	**263**
Interest paid	(12)	-	(12)	(17)	-	(17)
Interest received	2	-	2	1	-	1
Tax paid	(55)	-	(55)	(60)	-	(60)
Net cash inflow/(outflow) from operating activities	**291**	**(29)**	**262**	**231**	**(44)**	**187**

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

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 2021			Six months ended 31 January 2020		
	Headline £m	Non-headline £m	Total £m	Headline £m	Non-headline £m	Total £m
Net cash inflow/(outflow) from operating activities	291	(29)	262	231	(44)	187
Include:						
Expenditure on capitalised development, other intangible assets and property, plant and equipment	(55)	-	(55)	(55)	-	(55)
Repayment of lease liabilities	(23)	-	(23)	(22)	-	(22)
Investment in financial assets relating to operating activities and pensions financing outstanding at the balance sheet date	4	-	4	-	-	-
Free cash-flow			**188**			**110**
Exclude:						
Investment in financial assets relating to operating activities and pensions financing outstanding at the balance sheet date	(4)	-	(4)	-	-	-
Repayment of lease liabilities	23	-	23	22	-	22
Interest paid	12	-	12	17	-	17
Interest received	(2)	-	(2)	(1)	-	(1)
Tax paid	55	-	55	60	-	60
Operating cash-flow	**301**	**(29)**	**272**	**252**	**(44)**	**208**

Headline cash conversion

Headline operating cash conversion for the total Group is calculated as follows:

	Six months ended 31 January 2021 £m	Six months ended 31 January 2020 £m
Headline operating profit – including discontinued operations	255	280
Depreciation and amortisation of held for distribution assets	(21)	(23)
Pro-forma operating profit including depreciation and amortisation on held for distribution assets	234	257
Headline operating cash-flow	301	252
Headline operating cash conversion	**129%**	**98%**

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

	Six months ended 31 January 2021 £m	Six months ended 31 January 2020 £m
Free cash-flow	**188**	**110**
Acquisition of business	(5)	(24)
Net cash-flow used in financing activities	(158)	(144)
Net increase/(decrease) in cash and cash equivalents	**25**	**(58)**

16 Related party transactions

The related party transactions in the period were consistent with the nature and size of transactions disclosed in the Annual Report for the year ended 31 July 2020.

17 Discontinued operations and businesses held for distribution to owners

The Group is currently pursuing the demerger of the Smiths Medical business to list it separately on the UK Stock Exchange; accordingly the Smiths Medical business has been accounted for as a discontinued operation and as a business held for distribution to owners at 31 January 2021.

We are finalising the key separation workstreams to deliver the separation of Smiths Medical in Q4 of the current financial year.

Discontinued operations

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

	Six months ended 31 January 2021			Six months ended 31 January 2020 - represented*		
	Headline £m	Non-headline (note 3) £m	Total £m	Headline £m	Non-headline (note 3) £m	Total £m
Revenue	427	-	427	434	-	434
Direct materials, labour, production and distribution overheads	(224)	-	(224)	(216)	-	(216)
Selling costs	(58)	-	(58)	(59)	-	(59)
Administrative expenses	(56)	(1)	(57)	(65)	(11)	(76)
Operating costs	(338)	(1)	(339)	(340)	(11)	(351)
Operating profit/(loss)	**89**	**(1)**	**88**	**94**	**(11)**	**83**
Finance costs	-	38	38	(2)	68	66
Taxation	(22)	3	(19)	(22)	6	(16)
Profit from discontinued operations	**67**	**40**	**107**	**70**	**63**	**133**

* Results in the comparatives for the period ended 31 January 2020 have been represented to show operating costs on the face of the income statement; see note 2 for further details.

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

	Six months ended 31 January 2021 £m	Six months ended 31 January 2020 £m
Net cash inflow from operating activities	50	44
Net cash-flow used in investing activities	(27)	(18)
Net cash-flow used in financing activities	(15)	(48)
Net increase/(decrease) in cash and cash equivalents	**8**	**(22)**

Businesses held for distribution to owners

The carrying value of the assets and liabilities of the Smiths Medical business as at 31 January 2021 and 31 July 2020 is as follows:

	31 January 2021 £m	31 July 2020 £m
Assets classified as held for distribution to owners:		
Intangible assets	718	734
Property, plant and equipment	151	141
Right of use assets	55	54
Inventories	164	164
Deferred tax assets	12	14
Current tax receivable	3	3
Trade and other receivables	121	148
Cash and cash equivalents	24	20
Financial derivatives	3	1
Assets classified as held for distribution to owners	**1,251**	**1,279**
Liabilities classified as held for distribution to owners:		
Financial liabilities		
– lease liabilities	(42)	(48)
– financial derivatives	(4)	(4)
Trade and other payables	(130)	(167)
Current tax payable	(10)	(10)
Deferred tax liabilities	(61)	(53)
Retirement benefit obligations	(5)	(5)
Provisions	(5)	(8)
Liabilities classified as held for distribution to owners	**(257)**	**(295)**

Additional segmental information for discontinued operations

Revenue for the Smiths Medical discontinued operation is analysed by the following product lines: Infusion Systems £152m (31 January 2020: £148m), Vascular Access £133m (31 January 2020: £145m) and Vital Care/Other £142m (31 January 2020: £141m).

Pro-forma balance sheet of the Group excluding Smiths Medical

	31 January 2021 £m
Non-current assets	
Intangible assets	1,492
Property, plant and equipment	212
Right of use assets	87
Financial assets – other investments	13
Retirement benefit assets	432
Deferred tax assets	97
Trade and other receivables	49
Financial derivatives	100
	2,482
Current assets	
Inventories	394
Current tax receivable	44
Trade and other receivables	551
Cash and cash equivalents	375
Financial derivatives	4
	1,368
Total assets	**3,850**
Current liabilities	
Financial liabilities	
– borrowings	(19)
– lease liabilities	(27)
– financial derivatives	(3)
Provisions	(39)
Trade and other payables	(471)
Current tax payable	(74)
	(633)
Non-current liabilities	
Financial liabilities	
– borrowings	(1,422)
– lease liabilities	(64)
Provisions for liabilities and charges	(264)
Retirement benefit obligations	(134)
Corporation tax payable	(4)
Deferred tax liabilities	(22)
Trade and other payables	(50)
	(1,960)
Total liabilities	**(2,593)**
Net assets	**1,257**

18 Post Balance Sheet Events

On 16 February 2021, the Group's Flex-Tek division completed the acquisition of 100% of the share capital of Royal Metal Products, LLC (Royal Metal) for a provisional cash cost of £78m ($107m).

Royal Metal is a manufacturer of metal duct products and flexible ducting used in commercial and residential construction, mainly in the South Eastern states of the US. This acquisition strengthens Flex-Tek's market leadership of the heating, ventilation, and air conditioning (HVAC) sub-segment of the US construction market by broadening its offerings.

Royal Metal had revenue of £56m in the year ended 31 December 2020. The acquisition accounting for this business combination is in progress and therefore incomplete. The fair value of goodwill, customer relationships, branding, business combination consideration and other assets and liabilities is currently being determined and will be reported in the Group's 2021 Annual Report.

In March 2021, the formal triennial valuation for the TI Group Pension Scheme (TIGPS) at 5 April 2020 was concluded. It shows a surplus on a technical provisions basis and further progress towards full buy-out, see page 6 for further detail.

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:

Term	Definition and purpose
Capital employed	Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets and is adjusted to add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998 and to eliminate post-retirement benefit assets and liabilities and 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.
Dividend cover - headline	Dividend cover is the ratio of headline earnings per share (see note 4) to dividend per share (see note 14).
Divisional headline operating profit ('DHOP')	DHOP comprise divisional earnings before central costs, finance costs and taxation. DHOP is used to monitor divisional performance. A reconciliation of DHOP to operating profit is shown in note 2.
Free cash-flow	Free cash-flow is calculated by adjusting the net cash inflow from operating activities to include capital expenditure, the repayment of lease liabilities and proceeds from the disposal of property, plant and equipment. The measure shows cash generated by the Group before discretionary expenditure on acquisitions and returns to shareholders. A reconciliation of free cash-flow is shown in note 15.
Gross debt	Gross debt is total borrowings (bank, bonds and lease liabilities). It is used to provide an indication of the Group's overall level of indebtedness.
Gross vitality	Gross vitality is calculated as the percentage of revenue over the last 12 months derived from new products and services launched in the last three years.
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. A reconciliation of headline operating profit to headline EBITDA is shown in the note below.
Headline EBITDA before restructuring costs	Headline EBITDA, as defined above, is adjusted to exclude restructuring costs from the Group's strategic restructuring programme which commenced in FY2020. A reconciliation of Headline EBITDA to Headline EBITDA before restructuring costs is shown in the note below.
Headline cash conversion ratio	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. This measure is presented for the total Group including discontinued operations and the calculation is shown in note 15.
Net debt	Net debt is total borrowings (bank, bonds and lease liabilities) less cash balances and derivatives used to manage the interest rate risk and currency profile of the debt. This measure is used to provide an indication of the Group's overall level of indebtedness and is widely used by investors and credit rating agencies. See note 10 for an analysis of net debt.
Headline operating profit excluding restructuring costs	Headline operating profit is adjusted for strategic restructuring programme costs and write-downs. See note 2.
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	Comprises free cash-flow and excludes cash-flows relating to interest, taxation, lease repayments and non-headline cash items. The measure shows how cash is generated from operations in the Group. A reconciliation of operating cash-flow is shown in note 15.
Operating profit	Operating profit is earnings before finance costs and taxation. A reconciliation of operating profit to profit before tax is shown on the income statement. This common measure is used by the Group to measure and monitor performance.
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 in operations.
Return on capital employed ('ROCE')	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.

Stock turns	Stock turns during the year is calculated as the last 12 month cost of sales divided by the 12 month average inventory. This measure is included as a key performance indicator of the Group to measure the efficiency of the Group
Underlying	Underlying measures are calculated by excluding the effects of foreign exchange, disposals and acquisitions, strategic restructuring programme costs and write-downs (see note 2), and to include depreciation and amortisation charges for Smiths Medical. Underlying measures are used by the Group to monitor performance.
Working capital	Working capital is calculated as the sum of the 12-month rolling average of inventory, trade receivables, contract assets, trade payables, trading provisions 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 £787m (31 January 2020: £787m), and to eliminate post-retirement benefit assets and liabilities and litigation provisions relating to John Crane, Inc. and Titeflex Corporation, both net of related tax, and net debt.

	Notes	31 January 2021 £m	31 January 2020 £m
Net assets		**2,251**	**2,240**
Adjust for:			
Goodwill recognised directly in reserves		787	787
Post-retirement benefit assets and liabilities	6	(293)	(343)
Tax related to post-retirement benefit assets and liabilities		55	61
John Crane, Inc. litigation provision and related tax	12	162	174
Titeflex Corporation litigation provision and related tax	12	41	53
Net debt (including £18m of net debt in discontinued operations (31 January 2020: £19m))	10	1,075	1,270
Capital employed		**4,078**	**4,242**

Return on capital employed

	Notes	31 January 2021 £m	31 January 2020 £m
Headline operating profit for previous twelve months		486	608
Monthly average capital employed	2	4,326	4,156
ROCE		**11.2%**	**14.7%**

Credit metrics – Total Group including discontinued operations

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") – Total Group including discontinued operations

	Notes	Six months ended 31 January 2021 £m	Six months ended 31 January 2020 £m
Headline operating profit	2	**166**	**186**
Include:			
– headline operating profit of discontinued operations (excludes depreciation and amortisation)	17	89	94
Add back:			
– depreciation of property, plant and equipment	8	19	20
– depreciation of right of use assets	9	15	16
– amortisation of development costs	7	3	3
– amortisation of software, patents and intellectual property	7	3	4
Headline EBITDA		**295**	**323**
Add back: restructuring costs (including £3m in discontinued operations (31 January 2020: £nil))	2	4	-
Headline EBITDA before restructuring costs		**299**	**323**

Annualised headline EBITDA – Total Group including discontinued operations

	Notes	Year ended 31 January 2021 £m	Year ended 31 January 2020 £m
Headline EBITDA for the period		**295**	**323**
Add:			
– headline EBITDA for the previous year		610	666
Exclude:			
– headline EBITDA for the first six months of the previous year		(323)	(290)
Annualised headline EBITDA		**582**	**699**
Add back: restructing costs and write-downs in past twelve months (including £7m in discontinued operations (31 January 2020: £nil))		51	-
Annualised headline EBITDA before restructuring costs and write-downs		**633**	**699**

Ratio of net debt to annualised headline EBITDA – Total Group including discontinued operations

	31 January 2021 £m	31 January 2020 £m
Annualised headline EBITDA	582	699
Net debt (including £18m of net debt in discontinued operations (31 January 2020: £19m))	1,075	1,270
Ratio of net debt to headline EBITDA	**1.8**	**1.8**

Ratio of net debt to annualised headline EBITDA before restructuring costs and write-downs – Total Group including discontinued operations

	31 January 2021 £m	31 January 2020 £m
Annualised headline EBITDA before restructuring costs and write-downs	633	699
Net debt (including £18m of net debt in discontinued operations (31 January 2020: £19m))	1,075	1,270
Ratio of net debt to headline EBITDA before restructuring costs and write-downs	**1.7**	**1.8**